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INSTITUTE

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Vol. 6, No. 10, March 31, 1981

KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

March 31, 1981

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

KEDI has been analyzing the Reagan plan since it was first announced as a proposal. For this continuing story, see the three most recent issues: December, January, and February.

It has always been maintained here that the PLAN IS FEASIBLE, BUT IT IS TOO OPTIMISTIC. Even for the first quarter of 1981, the Administration's forecast is unrealistic in expecting that there will be an inflation adjusted annual rate of growth of 5 per cent. The Commerce Department announced that the projection was based on very preliminary data, while at the same time they made note of the bit of gain in auto sales and the firmness of consumer spending to give credence to their estimate.

The forecast of growth for the first quarter by this Institute is about half that of the Administration: 2.6 per cent only. KEDI is not alone in this conclusion. Private forecasters have been using figures more typically in the 1.5 - 2.5 per cent area. The consensus of forecasting firms covered by Robert Eggert showed an average real first quarter gain in inflation adjusted growth of 2.1 per cent.

Some economists predict a downturn in the second quarter and, perhaps, the third quarter of this year. (Even Reagan officials speak in terms of that as being a possibility.) For instance, Chase Econometrics is

OVERVIEW

predicting some decline during the second quarter, but no long-term downward movement is forecast by them.

KEDI does not share that view. The position is maintained here that during this year, the economy will show some growth. The next two quarters will continue to show neither great strength nor weakness. The fourth quarter will show more definite improvement.

Looking forward more than just one quarter, President Reagan expressed a more cautious view in acknowledging that his program would not produce any "instant cure", but that by the end of 1982 there would be progress in curtailing both high inflation and high unemployment. For 1981, his advisers point to an inflation-adjusted gain in GNP of 1.1 per cent. They also see inflation as measured by the CPI going up 11.1 per cent.

KEDI calculates that the economy will perform a bit better than that in overall growth by gaining 1.6 per cent. However, inflation is seen here as being somewhat more costly. The forecast is currently at 12.0 per cent for the year.

For 1982, at this time, the Administration looks to next year as showing GNP rising by 4.2 per cent over this year and price gains at a lower rate of 8.3 per cent. Again, this Institute predicts that inflation will be higher than that. However, real growth will be lower. The projection here for 1982 inflation is 10.7 per cent, and growth is seen as amounting to 3.5 per cent.

OVERVIEW

In this forecast, as compared with the last one, three minor changes have been incorporated.

1. The forecast for the annual GNP growth rate has been decreased from 1.7 to 1.6 per cent due mostly to the actual performance in February and the drop in housing starts that was steeper than had been expected.

2. The rate of inflation, as measured by the Consumer Price Index, has been lowered from 12.2 to 12.0 per cent for this year. The reason behind the revision has to do with the price of houses and food.

3. There is a downward revision in the forecast of housing starts in 1981.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 1.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $53 per barrel. In 1984, to $58 per barrel, and in 1985, to $66 per barrel.

ASSUMPTIONS

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

4. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

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ASSUMPTIONS

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984	1985
West Germany	1.1%	1.6%	2.3%	3.1%	3.4%
Japan	1.5%	2.3%	3.3%	3.6%	4.0%
Italy	1.3%	1.8%	2.5%	2.8%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%	2.7%
France	1.7%	2.3%	2.7%	2.8%	3.0%

8. No drastic changes in existing international relationships are assumed in this forecast.

The KEDI forecast is highlighted in Table 1.0 on the following page.

1.10 REAL GROWTH

(Table 1.10 on page 10)

The forecast here remains basically the same despite a slight downward revision. During 1981 and 1982, there is no recession or any significant downturn expected by KEDI. Reasons for the view that 1981 will see some growth--1.6 per cent real growth--are found, for example, in recently released data.

1. Retail sales were strong in February. There are no indications that they will drop by any meaningful degree in months to come. February sales went up by 0.9 per cent, seasonally adjusted, from the January level. January sales were revised upward by the Commerce Department to

KENT ECONOMIC AND
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MONTH: March 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1505.0	1558.1	1729.3
Index of Industrial Production	1967 =100	147.1	152.5	160.6	185.1
Capacity Utilization	%	78.7	78.3	84.6	87.4
Unemployment Rate	%	7.2	7.5	7.3	6.2
Private Housing Starts	mil. units	1.303	1.411	1.521	1.819
Car Sales	mil. units	9.1	9.1	9.5	11.4
Implicit GNP Price Deflator	1972 =100	177.4	195.1	211.7	268.1
Consumer Price Index	1967 =100	246.7	276.3	306.0	434.7
Producer Price Index	1967 =100	269.8	304.4	339.2	472.6
Federal Deficit	bil. $	-61.2	-54.5	-34.1	-23.5
Personal Income	bil. $	2160.2	2424.1	2717.4	3801.4
Prime Rate	%	15.10	17.20	15.23	11.72
Mortgage Rate	%	12.96	14.10	13.21	10.96
Currency plus Demand Deposits	bil. $	377.4	392.7	419.8	520.1
Commercial and Industrial Loans	bil. $	325.3	332.9	358.7	426.5

show a 2.9 per cent adjusted gain over the prior month. Some analysts had been expecting a decline in January, and when that did not materialize, they looked to a downward move in retail sales in February. Now that sales have shown a bit of gain, some are left in a slack-jawed posture.

All major categories of retail sales showed increases over the year-earlier period. At the top of the list are gasoline service stations. (Hardly a surprise--fatalism has set in as one pulls into the gas station and looks to see if the price has gone up again). Their sales went up by 19 per cent.

2. Care sales jumped ahead due mostly to rebates at Chrysler and GM. Buyers of midsize GM cars were offered $700 rebates, for example. Chrysler sales in early March were up by 51 per cent over the very depressed figure from a year ago. Overall, auto sales were up by 8.2 per cent in early March from the same period in 1980.

That is temporary. Sluggish sales are expected for the second quarter and slight improvement in the latter part of the year. Obviously, KEDI does not anticipate any dramatic decline in auto sales during the rest of the year.

3. The outlook for capital outlays remains somewhat bright. KEDI maintains the growth rate of 1 per cent for 1981, adjusted for inflation. That does correspond with the U.S. Department of Commerce forecast based

on their survey done in January and February. (KEDI does not always disagree with the Washington economists.) The survey showed that plant and equipment spending will go up this year by an adjusted 1 per cent. That is down from the prior survey in late 1980 when the projection by the Commerce Department was 1.5 per cent. By way of comparison, in 1980 such outlays went up by only 0.2 per cent according to preliminary figures.

4. New orders for durable goods managed to show some gain in February. Such orders had fallen in January by a revised 1.6 per cent from the December level. In February they crept up by 0.4 per cent on a seasonally adjusted basis. True, that is not much. However, there are no indications that there will be any drop to speak of in the near future. The backlog of orders went up last month by just 0.3 per cent following the January gain of about the same--0.4 per cent to be precise.

5. The outlook for agriculture remains unchanged. It is expected here that, given fair weather, near record crops will be harvested in wheat and corn. It appears farmers plans for planting are only a fraction of a per cent off of last year's acreage when yields were cut by the drought. There will be generally good harvests for soybeans, sorghum, and potatoes.

The above signs of small but real gains are counterbalanced by the news in housing and construction. Developments there point to weakness in coming quarters. The slight drop in February's industrial production does not point to further weakness.

REAL GROWTH

6. Housing starts plunged 24.6 per cent in February. No significant recuperation is expected during the rest of the year. The construction industry as a whole will show weakness during this year.

7. The outlook for performance by U.S. industry this year remains unchanged. KEDI considers the February decline in the Index of Industrial Production to be of a temporary nature. That measure had been on the rise since August of last year and by the first of this year it had reached the levels typical during 1979. The recovery in production of business equipment and consumer goods will take place in the second quarter and continue upward during the rest of the year. Production of auto assemblies will remain relatively strong during this year.

In general, KEDI does not expect a recession or any substantail downturn in the economy this year. The second and third quarters of the year will not keep up with the "fast" growth rate expected in the first quarter. They will be essentially flat, and more vigorous growth will take place in the fourth quarter. In other words, growth in the first and fourth quarters will more than counterbalance the lack of zip of the second and third quarters. As was stated earlier, real GNP is projected to expand by 1.6 per cent.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1489.2	1494.0	1509.4	1527.6	1505.0
Index of Industrial Production	1967= 100	147.1	151.6	152.0	152.5	154.0	152.5
Unemployment Rate	%	7.2	7.4	7.6	7.5	7.5	7.5
Capacity Utilization Rate	%	78.7	77.0	77.2	78.0	80.9	78.3
Private Housing Starts	mil. units	1.303	1.349	1.416	1.440	1.439	1.411
Car Sales	mil. units	9.1	9.0	8.9	8.9	9.4	9.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1505.0	1532.4	1546.0	1567.8	1586.4	1558.1
Index of Industrial Production	1967= 100	152.5	156.1	159.0	162.3	164.9	160.6
Unemployment Rate	%	7.5	7.4	7.4	7.2	7.1	7.3
Capacity Utilization Rate	%	78.3	82.2	83.9	85.5	86.6	84.6
Private Housing Starts	mil. units	1.411	1.329	1.537	1.637	1.580	1.521
Car Sales	mil. units	9.1	9.2	9.5	9.8	9.5	9.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.1	1591.2	1610.9	1630.2	1640.1	1618.1
Index of Industrial Production	1967= 100	160.6	166.4	169.6	172.9	175.4	171.1
Unemployment Rate	%	7.3	7.0	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	84.6	85.4	86.4	86.9	87.2	86.5
Private Housing Starts	mil. units	1.521	1.503	1.836	1.906	1.718	1.741
Car Sales	mil. units	9.5	9.3	9.6	9.9	10.3	9.8

* Historical Data

1.20 PRICES

(Table 1.20 on page 13)

The outlook for inflation, as measured by the Consumer Price Index, has been decreased slightly as compared with the forecast made last month. At that time an inflation rate of 12.2 was predicted. The forecast now shows an annual rate of inflation of 12.0 per cent. Although slightly down, the forecast here is still above the Administration estimate of 11.1 per cent. As was stated in the Overview section, the main reason for the slight change has to do with house prices and food prices. The new forecast shows that the average annual increase in the price of a house this year will be in the 6-8 per cent range instead of the estimate calculated last month of 8-10 per cent. Also, food prices were expected to be growing in the 10 per cent range, but the revised forecast here shows the gain to be approximately 9 per cent. Some downward revision in the rate of price gains for beef and pork are the main elements here.

In February, consumer prices went up a seasonally adjusted 1 per cent after gaining by 0.7 per cent in January as compared to the prior month. Perhaps it will cheer the reader to be reminded that it could be worse. Prices in Israel went up 5.5 per cent in the month of February, for example. The surge in the February Consumer Price Index in this country has been largely attributed to the increase of oil prices due to decontrol. The impact of decontrols has been incorporated in the forecast of this Institute for many months. The forecast shows that the price for oil will continue to go up for more than just a few weeks after decontrol. That is, the price has not yet reached an equilibrium.

PRICES

The analysis by KEDI for the long-term shows the following development for some energy prices. (Consider buying wood burning stoves and forests.)

ENERGY PRICE FORECASTS
Base Year 1980=100

Year:	Natural Gas	Electric Power	Fuel Oil
1980	100.-	100.-	100.-
1	114.9	109.5	120.1
2	130.0	120.4	145.6
3	144.8	134.6	175.7
4	170.1	150.3	197.4
5	194.1	168.9	230.5
6	219.6	179.5	261.4
7	246.4	198.4	305.3
8	276.7	219.1	334.1
9	299.4	224.7	378.4
1990	332.6	241.5	399.6

The table here shows that the fastest gains will be in fuel oil prices throughout this decade. The slowest rate of gains will be for electricity prices. Still, it is hardly slow from a consumer view to see that less than 10 years from now, the bill to pay will be almost two and one-half times what it was last year for electricity. It is no comfort to realize that is "low" when compared to the quadrupling that will take place in a fuel oil bill. Still, it indicates that toward the end of this decade, heating homes with electricity will again be the least costly way.

The forecast of the Producer Price Index has also been slightly reduced since the last issue. The price gains for chemicals, electrical machinery, lumber, and construction products will not be changing at the relatively fast pace that had been anticipated earlier.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981 1	2	3	4	1981
Consumer Price Index, NSA	1967= 100	246.7	262.9	272.1	280.9	289.3	276.3
Producer Price Index, NSA	1967= 100	269.8	288.9	301.2	309.3	319.1	304.4
Implicit GNP Price Deflator	1972= 100	177.4	188.6	193.6	197.0	201.1	195.1
Gross National Product	bil. $	2626.1	2808.0	2892.7	2974.0	3071.9	2936.6
Personal Consump. Expenditures	bil. $	1672.8	1716.1	1821.4	1875.4	1935.7	1837.1
Gross Private Dom. Investment	bil. $	395.3	408.5	424.2	430.4	454.8	429.5

Indicator	Unit	1981	1982 1	2	3	4	1982
Consumer Price Index, NSA	1967= 100	276.3	297.7	301.2	308.0	317.0	306.0
Producer Price Index, NSA	1967= 100	304.4	327.2	335.6	345.6	350.1	339.2
Implicit GNP Price Deflator	1972= 100	195.1	205.9	209.7	214.1	217.1	211.7
Gross National Product	bil. $	2936.6	3155.8	3242.4	3356.2	3443.3	3299.4
Personal Consump. Expenditures	bil. $	1837.1	1981.3	2031.0	2108.6	2151.2	2068.5
Gross Private Dom. Investment	bil.$	429.5	465.8	481.3	492.2	514.1	488.4

Indicator	Unit	1982	1983 1	2	3	4	1983
Consumer Price Index, NSA	1967= 100	306.0	325.6	334.3	344.5	341.7	339.0
Producer Price Index, NSA	1967= 100	339.2	357.9	367.9	374.3	383.8	371.0
Implicit GNP Price Deflator	1972= 100	211.1	221.0	226.4	231.2	235.9	228.6
Gross National Product	bil. $	3299.4	3517.0	3647.6	3769.7	3868.5	3700.7
Personal Consump. Expenditures	bil. $	2068.5	2182.5	2275.8	2362.5	2438.9	2316.2
Gross Private Dom. Investment	bil. $	488.4	535.3	553.7	566.1	578.3	558.4

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

As compared with the last forecast, the unemployment rate calculated for the first quarter of 1981 has been somewhat lowered due to the actual data for February which was a bit lower than what had been estimated here. February unemployment was 7.3 per cent as compared to the 7.4 per cent figure for January and December.

The annual figure for the unemployment rate has not really been affected by the first quarter revision. The annual estimate remains as approximately 7.5 per cent. (It was set at 7.52 last month.) See Table 1.30 on page 15.

Compared with other forecasters, this Institute belongs to the category of the most optimistic. We now expect a slight increase in the unemployment rate in the second and third quarters of this year. (The data for the table are taken from Business Forecasts, 1981 published by the Federal Reserve Bank of Richmond; Richmond, Virginia, February, 1981.) As soon as the actual figures are available early next year, you will see this list again to compare forecasts with reality.

Forecast of the Unemployment Rate for 1981

Peter L. Bernstein, Inc.	8.2%
American Statistical Assoc. and Nat. Bureau of Econ. Research	7.6%
AMERITRUST	7.9%
Georgia State University	7.9%
First National Bank of Chicago	8.3%
Chemical Bank	7.6%
UCLA	7.8%
WGN Continental Broadcasting Co.	8.0%
Bankers Trust Company	7.8%
Standard & Poor's Corp.	7.8%
Data Resources, Inc.	7.9%
Morgan Guaranty Trust Co.	8.0%
Chase Econometrics	8.1%
Equitable Life Assurance Co.	8.1%
Philadelphia National Bank	8.2%

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.7	98.9	99.7	100.4	99.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.4	95.6	96.3	97.0	96.1
Unemployment Rate	%	7.19	7.38	7.56	7.51	7.48	7.48

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.4	101.1	101.8	102.8	103.7	102.3
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.1	97.7	98.4	99.5	100.4	99.0
Unemployment Rate	%	7.48	7.37	7.35	7.17	7.12	7.25

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.3	104.8	106.0	106.6	107.5	106.2
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.5	102.6	103.3	104.1	102.9
Unemployment Rate	%	7.25	7.04	6.92	6.75	6.61	6.83

* Historical Data

EMPLOYMENT AND LABOR

This Institute maintains the prediction that unemployment will be highest for the following areas this year: construction, housing, textile, apparel, furniture, household appliances, motor vehicles, and the lumber industry. Employment will show gradual improvement in rubber, electrical machinery, food, paper and products, and steel. High employment will exist in chemicals, plastics, petroleum products, ordnance, nonelectrical machinery, and aerospace.

1.40 HOUSING

(Table 1.40 on page 18)

Seasonally adjusted housing starts went skidding down by 24.6 per cent in February to an annual rate of 1.218 million units from the January level of 1.615 million. The February pace was 4.3 per cent lower than the year-earlier figure. This lowered rate of activity (just two years ago starts were at an annual rate of 2 million) has resulted in an estimate of about three-fourths of a million construction workers being without work in their field. Housing permits also went down for the third consecutive month to an annual adjusted rate of 1.143 million. Single-family housing starts dropped by 21.5 per cent to a rate of 779,000 units. That was the fifth month in a row of declines. Even starts of multifamily units were down. They had been going up for the previous five months.

HOUSING

Sales of new single-family houses were down in February after showing a slight gain in January. The median price of such a home sold was $67,100. (On the positive side that was $300 less than the average price in January.) Still, there is a large inventory of homes for sale. Savings and loan associations were asking for 80 per cent down and basic interest of 15.4 per cent.

People still want homes--it is increasingly hard to afford them. The President is not alone in seeing tight credit as necessary to fight inflation. The state of the housing industry is one of the casualties. His proposals for cuts in federally subsidized housing for low income families help the budget of the nation but not that of potential home owners looking for some help in buying.

Housing starts had been projected by KEDI to drop but the actual data was a bit lower for February than had been calculated here. Hence, the forecast for such starts for 1981 has been lowered. In the February issue, the total used was 1.576. That is revised in this issue to 1.411 million units. The forecast data in Table 1.40 also shows a lowering for single-family units and mobile home shipments.

KEDI expects the data for March, April, and May to be approximately at the February level. Some very slight improvement will take place in the second half of the year. Still, there will be no substantial improvement before 1982.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.852	.907	.917	.903	.894
Multifamily Housing Starts	mil.	.473	.497	.511	.523	.536	.517
Mobile Home Shipments	mil.	.222	.245	.279	.280	.265	.267
Housing Permits Issued	mil.	1.117	.987	1.014	.986	1.124	1.028
Construction Costs-Commerc.	1972=100	198.5	208.9	216.2	220.3	229.5	218.7
Construction Costs-Resident.	1972=100	198.6	210.1	217.0	220.1	229.9	219.3
Indicator	**Unit**	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.894	.840	.989	1.065	1.012	.977
Multifamily Housing Starts	mil.	.517	.489	.548	.572	.568	.544
Mobile Homes Shipments	mil.	.267	.273	.295	.316	.328	.303
Housing Permits Issued	mil.	1.028	1.215	1.487	1.506	1.485	1.423
Construction Costs-Commerc.	1972=100	218.7	237.0	250.1	258.8	265.6	252.9
Construction Costs-Resident.	1972=100	219.3	235.9	248.7	256.9	264.7	251.6
Indicator	**Unit**	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.977	.901	1.145	1.201	1.087	1.084
Multifamily Housing Starts	mil.	.544	.602	.691	.705	.631	.657
Mobile Homes Shipments	mil.	.303	.324	.331	.364	.317	.334
Housing Permits Issued	mil.	1.423	1.266	1.594	1.714	1.605	1.545
Construction Costs-Commerc.	1972=100	252.9	274.8	284.3	292.2	304.6	289.0
Construction Costs-Resident.	1972=100	251.6	271.9	282.1	290.3	301.5	286.5

* Historical Data

HOUSING

The view of Mr. Sumichrast of the National Association of Home Builders is shared here. He also sees the next three months as being like February and very slow improvement taking place in the latter part of this year. However, the view of forecasters that show a drop in starts to the level of one million is not shared here. That is too gloomy and unrealistic.

1.50 BUDGETS

(Table 1.50 on page 20)

In this forecast, the Federal Budget reductions for fiscal 1982 have been increased. In last month's issue, $41.4 billion in budget cutting for fiscal 1982 was assumed. President Reagan asked for $7.2 billion more to be eliminated. Calculations here show that the Administration's request for an additional $7 billion in budget cuts will result in roughly a $3 billion reduction in the deficit in 1982 and $2-3 billion in 1983. Incorporating the additional budget cuts would result in the following deficits calculated by KEDI

FEDERAL BUDGET DEFICITS
billions of $, calendar year

1980	$61 billion (actual)
1982	$54 billion
1983	$36 billion
1984	$32 billion
1985	$24 billion

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	282.5	291.5	296.4	302.8	293.3
Corporate Profit Tax Accruals	bil. $	70.1	75.4	80.3	84.2	92.7	83.2
Surplus./Deficit	bil. $	-61.2	-62.1	-57.4	-52.1	-46.3	-54.5
State and Local Governments:							
Income Taxes	bil. $	80.7	86.8	88.9	91.3	94.4	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.0	15.0	15.9	14.5
Surplus./Deficit	bil. $	29.1	28.4	27.7	25.4	24.0	26.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	293.3	313.9	322.6	323.1	343.4	325.8
Corporate Profit Tax Accruals	bil. $	83.2	100.4	106.4	111.9	121.5	110.1
Surplus./Deficit	bil. $	-54.5	-40.4	-35.0	-31.1	-30.6	-34.3
State and Local Governments:							
Income Taxes	bil. $	90.1	95.7	98.1	101.5	103.8	99.8
Corporate Profit Tax Accruals	bil. $	14.5	16.6	17.8	18.3	19.5	18.1
Surplus./Deficit	bil. $	26.4	23.6	21.2	22.0	23.1	22.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	325.8	353.5	365.1	378.4	390.2	371.8
Corporate Profit Tax Accruals	bil. $	110.1	128.7	134.2	140.1	147.2	137.6
Surplus./Deficit	bil. $	-34.3	-31.5	-39.4	-37.8	-34.5	-35.8
State and Local Governments:							
Income Taxes	bil. $	99.8	106.1	108.5	110.4	113.1	109.5
Corporate Profit Tax Accruals	bil. $	18.1	20.4	21.6	22.7	24.0	22.2
Surplus./Deficit	bil. $	22.5	23.4	24.6	25.3	25.6	24.7

* Historical Data

BUDGETS

The forecast data for state and local budgets remains basically unchanged. The slight changes made show a small reduction in the surpluses for state and local budgets for the 1981-85 period.

1.60 INCOME

(Table 1.60 on page 22)

Spendable earnings in February decreased by 1.5 per cent when adjusted for inflation. Such earnings had edged downward by 0.3 per cent in January. Before adjusting for price gains, but after deductions for federal taxes, the typical worker with three dependents had spendable weekly earnings of $213.16 in February.

The projection here for personal disposable income shows that it will keep gaining by an annual average of 11.9 per cent during the 1981-85 period. Overall, that is just slightly faster than the rate of inflation. Adjusted for inflation and computed on a per capita basis, calculations show that real per capita income will be just barely higher in 1985 than it was in 1979.

The Commerce Department released data in late March that showed after tax corporate profits went up by 3.1 per cent or $5 billion to a seasonally adjusted annual rate of $164.1 billion in the last quarter of 1980.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	**bil. $**	2160.2	2321.8	2396.1	2449.3	2529.1	2424.1
Personal Dispos. Income	**bil. $**	1821.7	1957.2	2020.7	2066.6	2137.9	2045.6
Compensation of Employees	**bil. $**	1596.5	1703.4	1756.8	1793.4	1853.0	1776.7
Corp. Profits After Tax	**bil. $**	163.1	169.3	174.1	181.6	189.3	178.6
Personal Saving	**bil. $**	101.3	103.1	101.7	114.5	118.6	109.5
Average Weekly Earnings	**$**	297.4	310.5	312.7	314.7	319.6	314.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	**bil. $**	2424.1	2601.2	2663.2	2768.3	2836.8	2717.4
Personal Dispos. Income	**bil. $**	2045.6	2196.6	2247.5	2328.7	2394.5	2294.3
Compensation of Employees	**bil. $**	1776.7	1897.5	1937.8	2017.6	2054.0	1977.2
Corp. Profits After Tax	**bil. $**	178.6	191.5	198.7	203.4	208.8	200.6
Personal Saving	**bil. $**	109.5	108.4	110.9	112.5	115.9	111.9
Average Weekly Earnings	**$**	314.4	322.4	324.8	332.0	336.9	329.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	**bil. $**	2717.4	2896.9	3110.1	3123.7	3201.5	3055.8
Personal Dispos. Income	**bil. $**	2294.3	2431.3	2542.5	2639.9	2703.2	2579.2
Compensation of Employees	**bil. $**	1977.2	2073.4	2157.5	2243.8	2289.7	2191.8
Corp. Profits After Tax	**bil. $**	200.6	216.7	218.8	223.2	229.6	222.1
Personal Saving	**bil. $**	111.9	118.7	121.4	125.6	127.3	123.3
Average Weekly Earnings	**$**	329.0	339.8	342.9	346.8	349.0	344.6

*** Historical Data**

INCOME

For that year as a whole, however, after tax profits were down by 2.8 per cent from the 1979 level. Adjusted for both inflation and taxes, profits in the last quarter of 1980 were 1.6 per cent lower than the prior quarter and 4.2 per cent below the fourth quarter pace of 1979.

The forecast here for corporate profits has been slightly adjusted for the current year mainly due to downward revisions for the auto industry, housing, and construction and upwards revisions in steel, plastics, chemicals, retail, and wholesale industries. The estimate for corporate profits for the years 1982-85 has been revised upward by KEDI.

1.70 MONEY AND CREDIT
(Table 1.70 on page 25)

The forecast concerning monetary and credit aggregates remains basically unchanged when compared with the previous issue. In March, there were some indications that the Federal Reserve would be relaxing the tight money policy just a bit for a short time. That is in line with the Assumption No. 3 that has been maintained here for quite some time.

> 3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

MONEY AND CREDIT

Any slight let-up in the tight policy in the first part of this year will be somewhat offset by renewed restraint in the third and fourth quarters of this year.

For the 1981-82 period, the markets for money will remain under constant pressure created by the Government need to cover the large deficits projected for those years. That pressure will not allow any relaxing of the monetary and credit restraints, nor any substantial declines in the interest rates. For the rest of this year, moderate, gradual gains in monetary aggregates are predicted by KEDI. The same holds true for the credit aggregates; commercial and industrial loans, and consumer credit.

Commercial and industrial loans will show a gain of 2.3 per cent in 1981 over the previous year and a 7.0 per cent increase in 1982. Consumer credit will also go up by 4.9 per cent in 1981 and will gain at a more rapid pace in 1982 when such credit will go up by 7.0 per cent over the prior year.

Mortgage borrowing will remain at a low level. The increase will be just 1.8 per cent in 1981 and the calculation for 1982 shows a 3.8 per cent gain over 1981.

TABLE 1.70 MONEY AND CREDIT

(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	383.6	387.2	394.1	406.0	392.7
Time Deposits, Adjusted, M2	bil. $	1596.2	1669.2	1677.0	1714.3	1734.1	1698.7
Consumer Instal. Credit	bil. $	313.4	315.6	319.2	325.1	329.0	329.0
Commerc. and Industr. Loans at Banks	bil. $	325.3	320.7	324.9	328.5	332.9	332.9
Negotiable Cert. of Deposits	bil. $	129.2	132.1	132.1	134.5	137.2	140.5
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.3	508.4	512.1	512.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	392.7	411.7	416.0	422.0	429.3	419.8
Time Deposits, Adjusted, M2	bil. $	1698.7	1739.8	1769.1	1801.3	1837.9	1787.0
Consumer Instal. Credit	bil. $	329.0	335.8	339.6	347.8	355.0	355.0
Commerc. and Industr. Loans at Banks	bil. $	332.9	337.5	341.6	350.5	358.7	358.7
Negotiable Cert. of Deposits	bil. $	140.5	145.2	148.7	151.0	153.8	153.8
Mortgages at S & L Assns.	bil. $	512.1	515.7	520.4	525.6	531.4	531.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	419.8	434.0	441.5	453.4	462.1	447.8
Time Deposits, Adjusted, M2	bil. $	1787.0	1860.8	1922.5	1968.9	2019.3	1942.9
Consumer Instal. Credit	bil. $	355.0	362.9	370.3	380.8	387.1	387.1
Commerc. and Industr. Loans at Banks	bil. $	357.8	363.4	370.6	377.2	383.6	383.6
Negotiable Cert. of Deposits	bil. $	153.8	154.1	155.9	159.3	164.1	164.1
Mortgages at S & L Assns.	bil. $	531.4	535.2	540.7	546.0	551.3	551.3

* Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 28)

Interest rates are definitely down from their record highs of December, 1980, and January, 1981. KEDI's projection is that the prime rate, presently in the 17 per cent range, will stabilize around that level for several months. In the autumn, a temporary increase is anticipated followed by declines to the 15 per cent level by the end of this year.

KEDI does not share the opinion of some bankers who expect a sharp rate decline. No 15 per cent rate is seen here as early as April or May, for example.

The view of Mr. Kaufman of Salomon Brothers that the prime rate will go above the record of 21½ per cent before the end of the year is certainly one not seen as possible at this Institute. Toward the other end of the very varied views on interest rates is the chief economist, Albert H. Cox Jr., at Merrill Lynch. He predicts a prime rate in the 12 per cent range by the end of 1982.

Then there is the outlook of Mr. McKinney Jr. of Irving Trust Co. He sees the prime rate as below 10 per cent by this year end! That just will not be. Wishing will not make it so. Government deficits and goals of fighting inflation their way do not fit with such reductions. To repeat the calculations of KEDI: a prime rate in the 15 per cent level is seen at the end of this year.

INTEREST RATES, YIELDS, AND SECURITIES PRICES

The forecast for the long-term interest rates remains unchanged here. Mortgage rates will keep moving downwards but at a very slow pace this year and next as is shown in Table 1.80. In that period, there will be no substantial declines in yields on U.S. or state and local obligations and long-term private bonds.

The performance of the stock market will be strong throughout this year and next without any dramatic ups or downs. As measured by the Dow Jones Industrial Average, the stock market will be in the 900-1000 range in these years.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	12.52	11.57	11.98	12.51
Prime Rate	%	15.10	19.06	17.18	16.64	15.91	17.20
Mortgage Rate, New Homes	%	12.96	14.46	14.30	13.97	13.65	14.10
Aaa Bonds Rate	%	11.94	12.65	12.31	12.46	11.88	12.33
Long Term Govt. Bonds Yield	%	11.39	12.42	12.01	11.46	11.24	11.78
Standard & Poor's 500 Average	1941-43 =10	118.71	133.24	130.47	128.65	131.54	230.98

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.51	11.86	11.27	10.84	10.56	11.13
Prime Rate	%	17.20	15.65	15.65	15.02	14.76	15.23
Mortgage Rate, New Homes	%	14.10	13.47	13.21	13.51	13.01	13.21
Aaa Bonds Rate	%	12.33	11.24	10.92	10.68	10.35	10.80
Long Term Govt. Bonds Yield	%	11.78	11.02	10.48	10.26	10.28	10.54
Standard & Poor's 500 Average	1941-43 =10	130.98	130.45	133.16	133.16	130.27	132.45

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.13	10.43	10.29	10.46	10.73	10.48
Prime Rate	%	15.23	14.62	14.43	13.95	13.67	14.17
Mortgage Rate, New Homes	%	13.21	12.86	12.75	12.80	12.95	12.84
Aaa Bonds Rate	%	10.80	10.28	10.30	10.56	10.96	10.53
Long Term Govt. Bonds Yield	%	10.54	10.14	10.46	10.28	10.76	10.41
Standard & Poor's 500 Average	1941-43 =10	132.45	134.56	136.48	138.14	137.52	136.68

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Consumer Price Index for the year 1980 has been selected for comparison. Actual figures for the year 1980 are in the Survey of Current Business (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), blue pages, February 1981 issue; and in Weekly Business Statistics, Supplement to the Survey of Current Business. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
CONSUMER PRICE INDEX
(Year 1980, 1967=100)

Actual: 246.7

Forecaster	Page of Business Forecasts 1980	Forecast	% of Accuracy
United California Bank	7	237.3	-3.2
Conference Board	7	240.0	-2.7
Harris Trust and Saving Bank	9	242.7	-1.6
Cities Services Company	9	243.3	-1.4
Gulf Oil Corporation	11	241.1	-2.7
Metropolitan Life	11	238.5	-2.3
National Securities Research Corp.	13	237.0	-3.9
U.S. Trust Company of New York	13	241.7	-2.0
J.A. Livingston, Philadelphia	19	241.4	-2.1
Manufacturers Hanover Trust	20	237.3	-3.2
Chemical Bank	21	240.9	-2.4
The First National Bank of Chicago	22	241.7	-2.0
Georgia State University	24	243.6	-1.3
Bankers Trust Company	28	243.0	-1.5
Goldman Sachs	29	243.8	-1.2
The Fidelity Bank	30	243.6	-1.3
KEDI	31	242.8	-1.6
Morgan Guaranty	35	243.7	-1.2

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KEDI ECONOMIC SURVEY

April 30, 1981

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claims based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW 1

The Reagan plan is still viewed as being too optimistic. The middle two quarters of this year are seen as lackluster and the last quarter as showing definite improvement. The projection for real growth has been increased here from 1.6 to 2.6 per cent for this year as compared to 1980.

1.02 ASSUMPTIONS 3

There is a change in the first assumption. Oil prices will not be going up as fast as was calculated in prior issues. The weighted price of oil for 1982, for example, is now at $42 a barrel instead of a $46 projection.

1.1 DETAILED FORECASTS

1.10 REAL GROWTH 6

Surprise! In the first three months of this year the real growth amounted to 6.5 per cent. KEDI still views the rest of the year in the same light as before. The economic news lending validity to that view include the rather weak performance of retail sales, the situation of the housing industry, orders for durable goods, U.S. trade gap, and leading indicators.

1.20 PRICES 14

The projection for the inflation rate has been revised downward to 11.8 per cent for 1981 Developments outside this country in oil prices are a central factor.

1.30 EMPLOYMENT AND LABOR 15

The forecast here is not altered. The unemployment rate wil decline over the next few years at a very gradual rate.

Page

1.40 HOUSING 17

Housing starts will be about 11 per cent lower this year than last. (Last year was depressing by itself.) Sales of new houses just managed a gain in March over February. Housing permits will not keep on declining.

1.50 GOVERNMENT BUDGETS 19

In the morass of politics, power plays, and projections, one feels stumped as to knowing what the end result will be. Assumptions are made here about the budget in Washington. Deficits will be higher than what Reagan publicly announces.

1.60 INCOME 22

The forecast here remains the same. Personal income and inflation will be practically tied in advances this year.

1.70 MONEY AND CREDIT 25

The tight money policy will predominate during the first half of this decade. During the current year, there will be some relaxing in the third quarter and renewed tightening in the last three months.

1.80 INTEREST TATES, YIELDS, AND SECURITIES PRICES 27

The prime rate was moved up by several large banks to 18 per cent. KEDI does not see the rate as setting any new highs nor is a rate as "low" as 15 per cent seen for 1981.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS 30

In this issue, forecasts of housing starts of 1 for the first quarter 1981 have been selected for comparison.

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1.01 OVERVIEW

In the continuing story of the Reagan plan, KEDI maintains its evaluation: The plan is feasible, but it is too optimistic. For instance, support of this view can be found in the recent action of the Senate Budget Committee which adopted an estimate of higher interest rates than the Administration. The White House has been using a Treasury bills rate of 8.9 per cent for 1982. The Senate group set that figure at 12 per cent viewing it as more in line with the other assumptions that were being made. The Senate deserves to be praised (not buried) for this example of realism that surfaced.

As was stated in the last issue KEDI expects that this year, there will be some growth. The second and third quarters will not have any zip to speak of, but the fourth quarter will show more definite improvement.

The forecast for growth has been revised upward this month for 1981. In the March issue, the estimate for growth in real GNP was set at 1.6 per cent by KEDI. Due to the larger than expected growth in the first months of this year, that estimate has been moved up to 2.6 per cent. (An upward revision for a positive sign is certainly made with a bit of cheer and less worry, for being slightly off the mark, than is true when any change is upward for unemployment or inflation.) Both the tax incentives for businesses and the tax cuts for consumers will bolster consumer outlays and aid in the recovery of business capital spending in the latter part of this year. Interest rates will remain on a high level during the year. Inflation will persist in the 10 per cent range. The growth that is expected in the last quarter of this year will more than make up for the wishy-washy nature of the two middle quarters. The end of the year gain will continue into 1982.

KEDI does not agree with certain aspects of the outlook for 1981 of some economists. For instance, Chase Econometrics sees the jobless rate moving up to 8 per cent and output going down at an annual rate of 2 per cent in the April-June period. Merrill Lynch sees such output going down at a yearly rate of 3.5 per cent and the prime rate moving down to the 12 per cent range. Again, the view is not shared here of the average of the forecasters covered in Blue Chip Economic Indicators: that average points to an economy decline at an annual rate of 0.4 per cent in those months and short-term rates falling toward 11 per cent in the last quarter of this year.

The calculations made here are more in line with the way growth is foreseen by the following: Data Resources indicate the April-June months will show growth of 0.7 per cent but Mr. Eckstein of that firm cautioned that there is a chance of a small decline. The University of Michigan Forecasting Service sees that the six months from April to September will provide real growth of 1.4 per cent. In early April, Townsend-Greenspan pointed to the lack of significant growth and the lack of any general weakening. KEDI views the second and third quarters fo this year as showing minimal movement. Frankly, the nature of some of the data leads to this general conclusion about minimal moves. Like Mr. Eckstein, small growth is expected but a bit of a 2nd quarter or 3rd quarter decline would not be a surprise. It is the fourth quarter that will provide a more vigorous upturn.

Looking ahead to 1982 and comparing the calculations by KEDI with the Senate Budget Committee reflects agreement on unemployment, but KEDI figures for Treasury Bills rate are somewhat higher, and the figure for inflation is over two percentage points higher. The estimate here for growth is lower than that of the Senate.

OUTLOOK FOR 1982

	Senate Budget Comm.	KEDI
Real Growth	4.2%	3.1%
Consumer Price Index	8.3%	10.3%
Unemployment rate	7.2%	7.2%
3 mo. Treasury Bills annual rage	12.0%	13.4%

The KEDI forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 1 and No. 3.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $37 range. In 1982, it is

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: April 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1518.7	1565.2	1755.8
Index of Industrial Production	1967 =100	147.1	152.6	160.8	189.2
Capacity Utilization	%	78.7	80.1	84.3	87.1
Unemployment Rate	%	7.2	7.5	7.2	6.2
Private Housing Starts	mil. units	1.303	1.396	1.480	1.804
Car Sales	mil. units	9.1	10.0	10.2	11.4
Implicit GNP Price Deflator	1972 =100	177.4	194.1	210.6	267.2
Consumer Price Index	1967 =100	246.7	275.8	304.1	430.6
Producer Price Index	1967 =100	269.8	303.3	334.7	465.7
Federal Deficit	bil. $	-61.2	-51.5	-34.8	-24.1
Personal Income	bil. $	2160.2	2409.5	2648.8	3814.5
Prime Rate	%	15.10	17.81	16.16	12.04
Mortgage Rate	%	12.96	14.17	13.54	11.13
Currency plus Demand Deposits	bil. $	377.4	393.1	420.2	514.5
Commercial and Industrial Loans	bil. $	325.3	333.4	359.8	430.7

ASSUMPTIONS

expected the price will go up to $42, in 1983, to $46 per barrel. In 1984, to $52 per barrel, and in 1985, to $60 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP;

	1981-1985
West Gernamy	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

ASSUMPTIONS

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH
(Table 1.10 on page 10)

Pleasant news, indeed: First quarter real growth seasonally adjusted, jumped up by 6.5 per cent during the first quarter of this year as compared to the previous quarter. For the fourth quarter of 1980 this figure was 3.8 per cent. Overall in 1980 real GNP had edged downward by 0.2 per cent. The reader likely saw that 6.5 per cent news in April's third week and viewed it with the same favorable reaction that was shared here. Not too surprisingly, there were those in Washington that took a dim view of the first quarter performance. There is the argument that more economic strength could endanger the tax-cut package. Being realistic, such danger is not real. There will be growth this year but the middle two quarters will not come anywhere near matching the first quarter performance.

That 6.5 per cent growth in the first three months of 1981 was a surprise. It caught most of us with our elbows in our calculators; so-to-speak. Still, KEDI was among the most optimistic forecasters. The estimate here made in March of first quarter performance was 2.6 per cent. Many economists had been predicting growth in just the 1.0 or 1.5 per cent range. The average of some 40 forecasters was 2.1 per cent. In the first quarter, personal income increased a bit as expected, but the way it was used had not been anticipated here (or by any other economist known here). That is, spending was higher and savings declined. The higher personal consumption spending boosted GNP. Quarterly forecasts are more susceptible to variation than yearly ones which allow for any monthly or quarterly aberrations to be evened out.

KEDI maintains its prediction of slow growth with a less lively showing in the current quarter and in the third quarter. The gains expected in the fourth quarter will be the beginning of a more sustained growth period. The forecast is supported by recent developments that include six other aspects in addition to the 6.5 per cent growth already discussed.

1. The most recent survey released in early April of purchasing managers showed that both production and new orders were up for the first time since last November. Close to half of the agents said they were optimistic about the next 12 months.

2. The month-to-month change in adjusted retail sales was negligible. According to preliminary estimates by the Commerce Department, they were just 0.1 per cent higher in March than in February. (The gain in that month had been 1.6 per cent.) There have now been 10 months of increases in a row, but the March figure was the lowest of the lot. Total retail sales were up by 12 per cent over the year-earlier figure.

REAL GROWTH

Durable goods sales gained about twice as much as nondurables. Auto sales did contribute to this and such March sales are not expected to continue. However, indications are that consumer purchases will remain strong in the second quarter.

3. Durable orders went up by an adjusted 1.3 per cent in March. The February change was a bit lower, 1.1 per cent, and such orders had declined 1.6 per cent in January. The March increase was not a solid sign of strength indicating more to come. Most major categories did report some declines. The overall total was given a boost by aircraft orders. (One order for a few biggy aircraft requires big bucks.) If transportation equipment is eliminated from the total, new orders actually declined by 1.7 per cent in March.

However, the projection for DEFENSE GOODS ORDERS shows that strong gains will occur in the rest of the year. Nondefense orders will also remain firm. Nondefense orders went up by 14.4 per cent in March after dropping 16 per cent in the previous month.

4. Industrial production showed a slight change in March. It edged above February by 0.4 per cent, seasonally adjusted. Again, the data include a fairly hefty rise in auto assemblies. That is not going to continue to go up at such a rate: 12 per cent in March.

5. Leading economic indicators had been moving downward for three months, but in March there was a change. An increase of 1.4 per cent was shown. Even though the rise in crude oil prices distorted the

March figure, if those are eliminated from the index, there still would be a bit of gain: 0.2 per cent.

6. For a change, the trade gap of this nation actually contracted in March. The deficit reached roughly $450 million. That was the lowest it had been in over five years. Oil imports and related products were down by almost 19 per cent from the prior month. Exports were up by 8.5 per cent. Especially strong were exports of agricultural products, aircraft equipment, and power-generating machinery.

7. Housing starts for March did show some gain from the prior month. However, there was a sharp drop at that time so any comparison needs to be cautioned. The KEDI projection shows that housing starts will remain at a low level during 1981, but NO SIGNIFICANT DECLINE is foreseen here.

The projection here points to the expected growth in machinery, chemicals, plastics, aerospace, food, iron and steel, and related industries will OVERLAP the low performance anticipated in automobile, housing, and the construction industry in general.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1509.2	1513.3	1518.7	1533.4	1518.7
Index of Industrial Production	1967=100	147.1	151.5	152.0	152.6	154.3	152.6
Unemployment Rate	%	7.2	7.4	7.5	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	78.6	79.6	80.7	81.6	80.1
Private Housing Starts	mil. units	1.303	1.363	1.418	1.427	1.378	1.396
Car Sales	mil. units	9.1	10.2	9.9	9.6	10.3	10.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1518.7	1540.8	1556.2	1574.4	1589.3	1565.2
Index of Industrial Production	1967=100	152.6	156.1	158.9	162.6	165.4	160.8
Unemployment Rate	%	7.5	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	80.1	82.3	84.0	84.9	86.1	84.3
Private Housing Starts	mil. units	1.396	1.308	1.512	1.575	1.526	1.480
Car Sales	mil. units	10.0	10.1	9.8	10.2	10.8	10.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1565.2	1606.4	1623.1	1642.1	1660.4	1633.0
Index of Industrial Production	1967=100	160.8	167.2	170.1	173.8	176.3	171.9
Unemployment Rate	%	7.2	7.0	6.9	6.7	6.6	6.8
Capacity Utilization Rate	%	84.3	86.9	87.0	88.0	88.7	87.7
Private Housing Starts	mil. units	1.480	1.508	1.855	1.966	1.764	1.773
Car Sales	mil. units	10.2	10.1	9.9	10.4	10.9	10.4

* Historical Data

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1.20 PRICES
(Table 1.20 on page 14)

As compared with the March forecast, the rate of inflation has been revised downward for 1981. Last month calculations showed that rate for the year would be 12 per cent. That projection is now set at 11.8 as measured by the Consumer Price Index. The main reasons for the change center on gasoline and house prices.

First. The outlook here for the 1981-85 period for gasoline prices has been revised due to the following news from abroad. Saudi Arabia reduced the oil prices on some of its exports by $2 a barrel to $34. This is viewed as the price that Saudi Arabia hopes will become the unified price of the OPEC Nations.

2. Mexico and Ecuador reduced contract prices by up to $2.50 a barrel. This has been one effect of the glut that has been brought about by somewhat sluggish economic growth in the industrialized nations and by Americans being able to accomplish more conserving of oil than had been expected.

3. In the U.S., refiners lowered prices by $1 a barrel for certain grades of crude oil from the Rocky Mountains. Retail gasoline prices actually moved down a bit, 0.6 cents, in the first part of April.

The outlook at this Institute is now as follows. The prices for gasoline will be stable for the rest of the year. The prices for imported oil will resume their upwards trend in 1982 and in the following year. The reader is referred to the Assumption No. 1 on international oil prices.

Second. The forecast for the average price of a house has been revised downward. The median price of a new home had declined by 3.1 per cent between January and February. In March, the price went up 2 per cent to $66,700. It had been anticipated here that the average price of a house would gain by 9 per cent during this year. The new figure is 7 per cent.

The remaining items in the Consumer Price Index are basically unchanged. As to food, it is anticipated here that prices of beef and pork will begin to go up again in the second half of this year. Pork producers were cutting back on their plans for breeding in March. The reduction in supply will contribute to price gains. It was reported that cattlemen were losing around $100 on each animal sold. The price of beef will help improve that situation in the rest of 1981.

The prices of wheat, corn, and soybeans will resume the upward trend in the latter half of this year. Overall, the forecast for food items in the Consumer Price Index remains the same: a 10 per cent rise over 1980.

Inflation slowed to an annual rate of 7.5 per cent in March. That was the smallest gain since last summer. The slowing was attributed mainly to moderating energy prices. Energy costs are expected to settle down in the coming months. The gains in the first part of the year reflected the higher costs of imported oil and the decontrol adjustments. First quarter inflation was 11.2 per cent above the average of the same period last year.

In March, housing costs were down for the third month. The price of houses decline by 0.7 per cent. However, mortgage interest rates went up almost 2 per cent. Overall, housing costs went up by 0.5 per cent.

The forecast data show there is little indication for a drop in the rate of inflation in the foreseeable future. KEDI agrees with the majority of economists that see the underlying rate of inflation persisting in the 10 per cent range this year. A basic reason here is the projection of labor costs in manufacturing which are expected to go up 10 per cent during this year as compared to 1980. That leaves no room for any substantial decline in the general rate of inflation.

There is another reason why the underlying rate won't change. The proposed tax cuts and military spending will more than offset the restraining influence of any reductions in nondefense federal spending and in spending changes by state and local governments. Again, inflation is calculated as amounting to 11.8 per cent this year.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	271.8	279.9	288.6	275.8
Producer Price Index, NSA	1967=100	269.8	287.3	300.1	308.4	317.4	303.3
Implicit GNP Price Deflator	1972=100	177.4	187.3	192.7	196.3	200.2	194.1
Gross National Product	bil. $	2626.1	2826.8	2916.0	2981.1	3069.7	2948.4
Personal Consump Expenditures	bil. $	1672.8	1805.4	1851.2	1889.4	1940.1	1871.5
Gross Private Dom. Investment	bil. $	395.3	423.1	442.2	449.4	465.7	445.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	275.8	296.5	298.9	306.0	314.9	304.1
Producer Price Index, NSA	1967=100	303.3	324.1	329.8	338.9	346.0	334.7
Implicit GNP Price Deflator	1972=100	194.1	204.9	208.7	212.9	216.0	210.6
Gross National Product	bil. $	2948.4	3157.1	3247.7	3351.8	3432.8	3297.3
Personal Consumpt Expenditures	bil. $	1871.5	1988.9	2036.8	2110.8	2147.1	2070.9
Gross Private Dom. Investment	bil.$	445.1	483.8	500.3	511.2	531.1	506.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	304.1	323.1	330.7	339.2	347.0	335.0
Producer Price Index, NSA	1967=100	334.7	351.1	360.1	369.0	376.5	364.2
Implicit GNP Price Deflator	1972=100	210.6	219.9	225.2	230.0	234.7	227.5
Gross National Product	bil. $	3297.3	3532.5	3655.1	3777.2	3897.1	3715.5
Personal Consump Expenditures	bil. $	2070.9	2204.3	2289.8	2381.9	2473.4	2337.4
Gross Private Dom. Investment	bil. $	506.6	553.9	572.7	584.9	595.3	576.7

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 16)

The forecast for employment and unemployment remains unchanged. KEDI projects the unemployment rate for 1981 at 7.5 per cent. It will continue to gradually decline in the following year. The unemployment rate is calculated at 7.2 per cent for 1982, 6.8 per cent for 1983, and 6.9 per cent for 1984. See Table 1.40 on page 16.

Total employment in March went up by 0.5 per cent to a seasonally adjusted 98.4 million. The number unemployed gained just 0.1 per cent or 10,000 to 7.8 million. The average workweek for nonfarm workers was at 35.4 hours in March and overtime was at 2.9 hours.

The forecast of the average workweek indicated changes will be minor in the 1981-82 years. Gradual gains are predicted.

AVERAGE QUARTERLY WORKWEEK AND OVERTIME OF
NONFARM PRODUCTION WORKERS

		Workweek Hours	Overtime			Workweek Hours	Overtime
1981:	1	35.4	2.9	1982:	1	35.8	3.2
	2	35.5	3.0		2	36.0	3.3
	3	35.6	3.0		3	36.2	3.3
	4	35.8	3.1		4	36.6	3.3

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.5	98.0	98.2	99.1	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	94.9	95.7	96.4	95.4
Unemployment Rate	%	7.19	7.34	7.51	7.48	7.41	7.45

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231,4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.8	100.4	101.0	102.3	102.9	101.7
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	97.0	97.6	99.0	99.6	98.2
Unemployment Rate	%	7.45	7.38	7.32	7.10	7.09	7.22

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.7	104.1	105.2	105.8	106.7	105.5
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.2	100.8	101.8	102.5	103.3	102.1
Unemployment Rate	%	7.22	7.01	6.89	6.70	6.57	6.79

* Historical Data

1.40 HOUSING
(Table 1.40 on page 18)

The forecast here remains essentially unchanged. Housing starts will total 1.396 million units this year. That will be 11 per cent below the level of last year.

KEDI is not as gloomy about this area as the president of the National Association of Home Builders, Mr. H. Smith. Citing interest rates of 15 and 16 per cent, he indicated starts could fall under one million units at an annual rate this spring.

Sales of new houses in March did increase--not much, but a gain was recorded. One-family house sales were up 0.6 per cent in March to an adjusted annual rate of 511,000 from the February level which was 3.2 per cent below the adjusted level of January. March sales were 8.5 per cent above the year earlier total. House sales will remain at about the March level throughout the year with no further drops. Still, the March rate was 37 per cent below the peak rate slightly in excess of 4 million reached in November of 1978.

Housing permits declined slightly in March. They were down 3.2 per cent from the prior month. The decline between January and February was 5.1 per cent. KEDI does not foresee any more substantial drops this year.

The long-range forecast by KEDI shows that housing activity will peak in the 1983-84 and the 1987-88 years. The forecast of housing starts

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.892	.896	.871	.878
Multifamily Housing Starts	mil.	.473	.511	.526	.531	.507	.518
Mobile Home Shipments	mil.	.222	.248	.281	.276	.260	.266
Housing Permits Issued	mil.	1.117	1.167	1.028	.975	1.086	1.064
Construction Costs-Commerc.	1972= 100	198.5	208.7	215.9	219.4	228.6	218.1
Construction Costs-Resident.	1972= 100	198.6	209.5	216.4	219.1	228.2	218.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.867	.832	.980	1.006	.984	.950
Multifamily Housing Starts	mil.	.518	.467	.532	.569	.541	.530
Mobile Homes Shipments	mil.	.266	.270	.289	.305	.320	.296
Housing Permits Issued	mil.	1.064	1.104	1.405	1.487	1.803	1.350
Construction Costs-Commerc.	1972= 100	218.1	236.1	248.7	256.2	261.4	250.6
Construction Costs-Resident.	1972= 100	218.3	233.2	245.1	252.1	259.1	247.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.950	.912	1.158	1.247	1.106	1.106
Multifamily Housing Starts	mil.	.520	.596	.697	.719	.658	.668
Mobile Homes Shipments	mil.	.296	.330	.341	.370	.328	.342
Housing Permits Issued	mil.	1.350	1.365	1.607	1.734	1.706	1.603
Construction Costs-Commerc.	1972= 100	250.6	268.9	278.1	286.2	297.1	282.6
Construction Costs-Resident.	1972= 100	247.4	263.4	276.0	282.1	289.4	277.7

* Historical Data

for the decade is presented along with the actual data for 1980.

HOUSING STARTS
(Millions of Units)

1980	1.333	1986	1.564
1	1.396	7	1.826
2	1.480	8	2.013
3	1.774	9	1.765
4	1.832	1990	1.703
5	1.608		

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 21)

Frankly, it is difficult to predict the final figures for the Federal budgets at this time. On April 29, it was reported that the Senate Budget Committee passed a resolution that was backed by Reagan. It sets up the Federal targets for three fiscal years:

1982	$48.7 billion
1983	$21.4 billion
1984	balanced budget

The package retains many problems of the original Reagan plan. The Administration has submitted its preliminary projection of the deficit of $44.7 billion for fiscal 1984 and promised to wipe out this deficit by cutting spending enough to make it balance by that time. However, just what the cuts would be were not detailed.

One of the savings is in the area of Social Security benefits. Over four years, a reduction of $38.4 billion in planned retirement benefits would be achieved by changing the automatic cost-of-living gains. Reagan opposed this Senate approved plan and pressure from the four million retirees getting government pensions is likely to make full approval of the Senate hard to achieve.

There is the matter of defense spending. One revision cuts defense spending by $14 billion plus during the next three fiscal years. It is speculated that the Administration is too conservative in its projection of defense spending plans.

Budget reductions of almost $14 billion are assumed for fiscal 1983 and 1984 by assuming that much can be saved with chipping away at waste, fraud, and abuse in government spending. Such nonspecific cuts are hardly easy to come by even if they are at the 1 per cent level. It looks good on paper.

It is assumed at this Institute that the budget deficit for fiscal 1982 will be $50 billion. The deficit assumed to be approved for fiscal 1983 during that year is $36.2 billion and the red ink approved for fiscal 1984 in 1984 will be $18 billion. What is approved and what actually happens is not the same thing at all--as most people

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.6	293.1	290.2	296.1	290.8
Corporate Profit Tax Accruals	bil. $	70.1	75.8	81.0	85.1	93.6	83.9
Surplus./Deficit	bil. $	-61.2	-63.8	-59.2	-57.4	-49.6	-51.5
State and Local Governments:							
Income Taxes	bil. $	80.7	88.7	89.5	92.6	92.6	91.6
Corporate Profit Tax Accruals	bil. $	12.2	12.4	14.5	15.7	16.8	15.1
Surplus./Deficit	bil. $	29.1	30.1	29.6	27.3	26.5	28.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	290.8	306.1	314.7	316.2	337.2	318.6
Corporate Profit Tax Accruals	bil. $	83.9	101.2	107.1	113.4	122.7	108.6
Surplus./Deficit	bil. $	-57.5	-43.2	-38.1	-35.6	-32.1	-34.8
State and Local Governments:							
Income Taxes	bil. $	91.6	96.1	99.4	102.8	104.3	100.7
Corporate Profit Tax Accruals	bil. $	15.1	17.3	18.4	19.6	20.3	18.9
Surplus./Deficit	bil. $	28.4	25.4	22.7	23.1	24.5	23.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.6	346.4	359.7	375.6	387.4	367.3
Corporate Profit Tax Accruals	bil. $	108.6	129.6	136.7	141.9	148.0	139.1
Surplus./Deficit	bil. $	-34.8	-33.4	-40.1	-40.7	-37.2	-37.9
State and Local Governments:							
Income Taxes	bil. $	100.7	107.2	110.1	112.5	114.4	111.1
Corporate Profit Tax Accruals	bil. $	18.9	21.5	22.9	23.8	25.2	23.4
Surplus./Deficit	bil. $	23.9	24.8	26.5	27.3	28.4	26.8

* Historical Data

know from struggling with projecting monthly spending and finding that by the end of the month or year more than was anticipated was needed for food or fuel, clothes or cavities, fertilizer or flowers, or the ever-present auto or home repair bill.

For the calendar year, KEDI projects the ACTUAL deficits as being higher all the way than what is anticipated in Washington:

1981	$51.5 billion
1982	$34.8 billion
1983	$37.9 billion
1984	$26.8 billion

Compared with the last projection, the figures for government budgets at the state and local level show no real change.

1.60 INCOME

(Table 1.60 on page 24)

There are no essential changes in the income and components forecast in this issue. Personal income is expected to go up at an annual rate of approximately 11.5 per cent in both this year and next year. In 1983 and 1984, the rise is projected at 13 per cent. If the rates are adjusted for inflation, it is a matter of keeping about even this year. Next year, personal income totals will slightly surpass the inflation rate and will gain by a wider margin in 1983 and 1984.

INCOME

The rates of gain for Personal Disposable Income are as follows: 11.5 per cent in 1981, 12.5 per cent in 1982, 15.1 per cent in 1983, and 16 per cent in 1984. The faster growth of Personal Disposable Income shows the impacts of the 10 per cent income tax cuts in the 1981-83 years.

Actual data released for March shows that personal income moved ahead 0.8 per cent from the previous month, seasonally adjusted annual rates. Personal consumption spending went up by just 0.7 per cent in March.

The Commerce Department came out with a rather sizeable reduction in their earlier estimate of the change in consumption spending between January and February. A little over a month ago, they reported that such spending had gone up by 1.3 per cent. That is revised now to 0.5 per cent.

Those on Social Security can plan on an 11.2 per cent boost in their checks starting in July as that is the percentage change in the Consumer Price Index in the first quarter of this year. By mid-summer, the average retired worker living alone will get his check increased by $37 to $375. Couple's benefits will go up to an average of $640 a month and the maximum will gain to $752.90. At the other end of the scale (and still hardly adequate) the minimum check will go up to $170.30--many women that worked off and on outside their home in low paying jobs are now alone and unable to make ends meet on that amount.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2317.7	2389.6	2930.8	2499.9	2409.5
Personal Dispos. Income	bil. $	1821.7	1945.5	2007.0	2048.0	2148.0	2027.2
Compensation of Employees	bil. $	1596.5	1721.8	1742.0	1762.0	1812.3	1759.5
Corp. Profits After Tax	bil. $	163.1	170.5	175.3	182.8	190.5	179.8
Personal Saving	bil. $	101.3	91.3	98.4	102.3	107.6	99.9
Average Weekly Earnings	$	297.4	310.5	312.9	315.0	321.4	314.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2409.5	2573.5	2641.0	2738.3	2786.6	2684.8
Personal Dispos. Income	bil. $	2027.2	2181.3	2226.9	2319.3	2345.1	2268.1
Compensation of Employees	bil. $	1759.5	1860.3	1904.9	1973.5	2006.6	1936.3
Corp. Profits After Tax	bil. $	179.8	199.9	204.6	210.0	217.9	202.8
Personal Saving	bil. $	99.4	116.0	120.3	125.3	120.2	120.5
Average Weekly Earnings	$	314.9	323.5	326.8	334.8	339.1	331.1

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2684.8	2873.8	2988.8	3116.1	3213.2	3047.9
Personal Dispos. Income	bil. $	2268.1	2419.9	2519.0	2628.0	2711.4	2569.8
Compensation of Employees	bil. $	1936.3	2049.9	2127.3	2211.5	2279.4	2167.0
Corp. Profits After Tax	bil. $	202.8	200.0	224.6	230.8	235.8	223.3
Personal Saving	bil. $	120.5	132.5	143.9	147.9	133.2	139.2
Average Weekly Earnings	$	331.1	343.6	345.8	348.7	355.4	348.4

INCOME

The forecast of corporate after-tax profits shows moderate gains in 1981 and considerable increases between 1982 and 1984.

For the current year, the forecast shows that the main profit makers will continue to be oil companies, refineries, aerospace, electrical machinery and electronics, machine tools, food industry, rubber, plastics, railroads, and utilities. The main loosers will be construction, textiles, housing, autos, and airlines. About at the same level with the previous year will be the profit and loss sheets of steel, mining, retail, chemicals, publishing, and banks.

1.70 MONEY AND CREDIT

(Table 1.70 on page 26)

The forecast here remains basically the same as it was last month and has been since the start of this year. KEDI maintains its assumption about tight money policy during the 1981-85 period. It is assumed that in the current quarter, the Federal Reserve will tighten the money supply. In the third quarter of this year, that policy will relax a bit. The projection shows renewed pressures on growth in the money supply in the last quarter of this year. As a result there will be some more tightening of monetary policy.

The forecast data for consumer credit has been slightly increased. Further improvement in the demand for autos is anticipated in the last part of 1981 and throughout 1982

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	383.6	387.4	394.7	406.8	393.1
Time Deposits, Adjusted, M2	bil. $	1596.2	1669.2	1674.3	1710.2	1729.6	1695.8
Consumer Instal. Credit	bil. $	313.4	315.6	320.1	327.4	334.5	334.6
Commerc. & Industr. Loans at Banks	bil.$	325.3	320.7	324.2	328.7	333.4	333.4
Negotiable Cert. of Deposits	bil. $	129.2	132.1	136.4	139.7	144.8	144.8
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.1	508.3	511.4	511.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	393.1	411.9	416.8	422.4	429.7	420.2
Time Deposits, Adjusted, M2	bil. $	1695.8	1731.4	1767.5	1796.5	1834.5	1782.5
Consumer Instal. Credit	bil. $	334.6	339.2	334.1	349.5	354.1	359.8
Commerc. & Industr. Loans at Banks	bil. $	333.4	337.8	342.5	352.7	359.8	359.8
Negotiable Cert. of Deposits	bil. $	144.8	148.5	152.6	157.1	160.3	532.5
Mortgages at S & L Assns.	bil. $	511.4	514.8	522.1	526.2	532.5	532.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	420.2	435.1	442.4	454.7	464.3	449.1
Time Deposits, Adjusted, M2	bil. $	1782.5	1854.9	1919.6	1967.4	2017.5	1939.9
Consumer Instal. Credit	bil. $	354.1	363.1	372.2	378.1	386.4	386.4
Commerc. & Industr. Loans at Banks	bil. $	359.8	363.0	372.5	379.8	384.5	384.5
Negotiable Cert. of Deposits	bil. $	160.3	164.2	166.5	168.7	169.4	169.4
Mortgages at S & L Assns.	bil. $	153.5	537.4	541.2	548.1	552.6	552.6

MONEY AND CREDIT

The calculations for commercial and industrial loans shows continuous weakness for the rest of the year. There will not be any significant gains in this area any earlier than 1982.

1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 1.80 on page 29)

In the middle of this month the prime fee went up to 17½ per cent in many large banks and at the time of this writing, it was reported that the rate was boosted again to 18 per cent. The April increases in the prime rate induced a variety of reactions from economists in the banking field.

For example, Henry Kaufman of Salomon Brothers was critical of the idea that tight money will reduce inflation. The resulting high interest we are experiencing will go beyond the record 21½ per cent during the next months.

The chief economist of Manufactures Hanover, Irwin Kellner, predicted that through the middle of the year it will likely drop down to around 15 per cent and then start back up. Mr. Edward Palmer of Citibank predicted that interest rates will likely rise further very soon, but by later this spring they will fall to around 15 per cent.

INTEREST RATES, YIELDS AND SECURITIES PRICES

Many economists believe that the surge in interest rates is only temporary and look toward a prime rate of 15 per cent in the middle of the year. KEDI is not as "optimistic." The analysis shows that the economy does have momentum and although the middle quarters will not be particularly strong, there will be some expansion. Given the need for credit, it is not anticipated here that the rate goes downward to 15 per cent this year. Then again, no record-setting rate near or above that 21½ per cent of last December will occur either.

One reason why the interest rates will stay "high" relates to the deficit. It is not likely that the Federal deficit will drop significantly during this year or in 1982. The requirements of the Treasury to finance these large deficits will impose a constant pressure on credit markets. Funds will therefore be diverted from productive use. That will keep the cost of borrowing by banks at a high level.

The forecast by this Institute shows that the interest rates will move downward but at a generally gradual rate. An effective prime rate of 15 per cent is not seen here as likely any earlier than 1983.

The forecast of the stock market shows a strong performance for the rest of this year and through 1983.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	13.71	13.14	12.95	13.44
Prime Rate	%	15.10	19.06	17.73	17.14	17.32	17.81
Mortgage Rate, New Homes	%	12.96	14.46	14.33	14.02	13.86	14.17
Aaa Bonds Rate	%	11.94	13.47	13.07	12.89	13.06	13.12
Long Term Govt. Bonds Yield	%	11.39	12.42	12.16	12.01	11.87	12.11
Standard & Poor's 500 Average	1941-43 =10	118.71	132.83	132.65	130.21	133.47	132.20

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.44	12.87	12.43	11.87	12.01	12.30
Prime Rate	%	17.81	16.94	16.35	15.73	15.62	16.16
Mortgage Rate, New Homes	%	14.17	13.65	13.58	13.60	13.34	13.54
Aaa Bonds Rate	%	13.12	12.67	11.98	11.14	10.87	11.66
Long Term Govt. Bonds Yield	%	12.11	11.54	11.32	11.15	11.04	11.26
Standard & Poor's 500 Average	1941-43 =10	132.30	130.72	133.24	135.71	137.65	134.33

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.30	11.85	11.62	11.18	10.95	11.40
Prime Rate	%	16.16	15.31	14.87	14.21	14.02	14.60
Mortgage Rate, New Homes	%	13.54	13.12	13.86	13.47	13.02	13.37
Aaa Bonds Rate	%	11.66	10.56	10.47	10.89	11.49	10.85
Long Term Govt. Bonds Yield	%	11.29	10.89	10.80	10.53	10.72	10.74
Standard & Poor's 500 Average	1941-43 =10	134.33	136.24	135.11	137.25	139.84	137.11

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Housing Units Starts for the first quarter of 1981 have been selected for comparison. Actual figures for January and February are in Weekly Business Statistics, Supplement to the Survey of Current Business, (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), and for March 1981, in the Wall Street Journal, April 17, 1981. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
HOUSING UNITS STARTS
(First quarter 1981, millions, seas. adj. at annual rates)

Actual: 1363

	Page of Business Forecasts 1981	Forecast	% of Accuracy
American Statistical Association and National Bureau of Economic Research	21	1.350	- 1.0
Ameritrust	22	1.400	+ 2.7
Georgia State University	23	1.181	-13.5
Manufacturers Namover Trust	25	1.414	+ 3.5
Chemical Bank	26	1.280	- 6.7
UCLA	27	1.267	- 7.1
MGN Continental Broadcasting Co.	29	1.000	-26.6
Cyrus J. Lawrence, Inc.	29	1.300	- 4.4
Bankers Trust	30	1.200	-12.0
Standard & Poor's	31	1.350	- 1.0
Data Resources	32	1.198	-12.1
KEDI	33	1.315	- 3.5
Fidelity Bank	34	1.220	-10.5
Morgan Guaranty	35	1.396	+ 2.4
Chase Econometrics	36	1.270	- 7.8
Equitable Life Assurance Society	37	1.250	- 8.3

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**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE**

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KEDI ECONOMIC SURVEY

May 31, 1981

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claims based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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The projected 1981-1985 prices of oil have been reduced. The Federal Income tax cut will be 25 percent instead of 30 percent previously assumed.

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The forecast here has been changed with the inflation figures lowered primarily due to the oil negotiations going on among OPEC members and the current oil surplus.

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The forecast here has not really changed. The unemployment rate edged downward a bit in April.

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Due to the change in the expectations about the tax cut from 10 to 5 percent this year in terms of a cut and the change from a summer to fall date for its institution, the red-ink projection is lowered for the next four years.

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Forecasts here have been reduced due to the unexpected additional tightening (practically a strangle-hold) of the money supply by the Fed.

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In this issue, forecasts of Consumer Price Index for the first quarter 1981 have been selected for comparison.

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1.01 OVERVIEW

In the forecast made by KEDI in late 1980 for growth and unemployment this year, the percentage change in real growth used between the two years was 1.7 percent and the unemployment rate was projected at 7.4 percent at that time. That made this Institute one of the most optimistic.

Presented here are the growth rates and the unemployment rates for 1981 as taken from the Statistical Bulletin of the Conference Board (Volume 14, Number 1, January, 1981, pages 8 and 9). The growth rate used by KEDI was the highest, and the unemployment rate the lowest of the eight forecasters detailed by that publication.

	Real GNP Growth	Unemployment Rate
Data Resources	0.8	7.9
Chase Econmetric	0.6	8.1
Wharton	0.3	8.0
Merrill Lynch	-0.6	8.4
KEDI	1.7	7.4

Actual developments in the January-April period point to growth this year over 2 percent. The unemployment rate will be around 7.4 percent as was forecast here before the start of this year. KEDI did not need to upwardly revise its projection for growth nearly as much as others in the field.

OVERVIEW

Recent developments confirm the view that this year will show some overall growth. First, consumer spending will remain strong. Opinion poles have shown that expectations of consumers are fairly high. The expected tax cut plus viewing inflation as slowing this year are part of the reason consumers look to improvement. The Conference Board reported that there was a gain in its index of consumer confidence in April. The index was at 74.3 in April as compared to 70.9 in March. Although the buying-plans index moved downward, this is not viewed here as a long term trend.

Secondly, capital outlays of businesses will keep increasing. There are no indications that such spending will go down because of high interest rates. The forecast is maintained here of a 1 percent addition, adjusted for inflation, in this area. Consumer spending and capital outlays represent approximatley 75 percent of GNP.

Thirdly, foreign trade will keep improving throughout the rest of the year. This will add to the growth in GNP.

The Council of Economic Advisors predicted that there would be a rise in industrial production of about 6 percent from the middle of this year through 1982. They point to inflation adjusted gains in business investment of 4 percent in the latter half of this year and 7 percent next year.

OVERVIEW

KEDI maintains the forecast that has been made here for some time: the second and third quarters of this year will not show any particular gains but the last quarter will show some healthy growth. The chairman of the Council of Economic Advisors, Murray Weidenbaum, expressed the same general view in early May when he referred to weakness in the middle half of the year. However his description of 1981 as being "soft and soggy" is seen as too pessimistic here.

The KEDI May 1981 forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the April, 1981 issue, the changes concern the updates of Assumption No. 1 and change in Assumption No. 4.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $36 range. In 1982, it is expected the price will go up to $39-40, in 1983, to $44 per barrel. In 1984, to $48 per barrel, and in 1985, to $52 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: May 1981

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1521.9	1564.6	1752.3
Index of Industrial Production	1967 =100	147.1	153.3	160.2	188.1
Capacity Utilization	%	78.7	80.2	84.1	87.0
Unemployment Rate	%	7.2	7.4	7.2	6.2
Private Housing Starts	mil. units	1.303	1.389	1.426	1.811
Car Sales	mil. units	9.1	9.9	10.2	11.4
Implicit GNP Price Deflator	1972 =100	177.4	194.6	210.0	265.0
Consumer Price Index	1967 =100	246.7	274.7	302.9	421.5
Producer Price Index	1967 =100	269.8	301.8	331.3	452.4
Federal Deficit	bil. $	-61.2	-49.1	-33.5	-21.8
Personal Income	bil. $	2160.2	2410.5	2661.7	3819.5
Prime Rate	%	15.10	17.81	16.16	12.04
Mortgage Rate	%	12.96	14.17	13.54	11.13
Currency plus Demand Deposits	bil. $	377.4	371.7	396.1	479.4
Commercial and Industrial Loans	bil. $	325.3	331.3	356.9	418.6

ASSUMPTIONS

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. The only major change in the Administration's proposal will concern the tax cuts. It is assumed that the 5 percent Federal income tax cut will be enacted effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.01 REAL GROWTH
(Table 1.10 on page 11)

The optimistic outlook for the rest of the year is underlined by general good news reported in the last month.

1. According to the monthly survey by the National Association of Purchasing Management Inc., better conditions were indicated in the areas of new orders, production, and employment. For example, 11 percent of those surveyed reported some cuts in employment whereas in March, that figure was 15 percent.

2. In March, factory orders gained by 1.3 percent over the prior month, largely due to a spurt in aircraft orders. In April, such orders showed a decline of 0.4 percent. That small drop is not seen here as significant. The March jump in aircraft orders distorted that monthly figure. If such orders were excluded from both March and April, a real gain would be seen in the April figure. Basic strength is there. Unfilled orders were up by 0.8 percent in March.

3. Factory output moved up by 0.4 percent in April, seasonally adjusted. According to the Federal Reserve, the increase would have been 0.7 percent if there had not been strikes in the coal mines. The index of industrial production was at 152.8 percent of its 1967 average in April. That represents a 3 percent gain over the year-earlier level.

4. Other good news came from the steel industry. Production there went up to 11.74 million tons as compared to the February level of 10.02 million. Granted, the March figure exceeded any month in 1980,

REAL GROWTH

but still the industry is way down from levels of the late 1970's. The forecast of steel production shows continuous increases throughout the 1981-85 period.

5. Despite the decline in retail sales in April, there is strength there. Retail sales were off by 1 percent for the first downward move since May of 1980. It was attributed mostly to a sharp drop in auto sales after the spurt in the first quarter in that area due to big promotional campaigns and rebates. Excluding autos, retail sales inched ahead almost 1 percent in April from the adjusted level of the former month.

Major retailers reported large hikes in sales when the four-week April period is compared to the same week in 1980. For many of the large chains, such as Sears and Federated Department stores, jumps of over 20 percent were the rule.

6. Foreign trade continues to improve. The trade gap was reduced to $3.69 billion at the end of the first quarter whereas it exceeded $6 billion in the last quarter of 1980. A year ago, the deficit was over $10 billion. Exports were up by 9.3 percent in the first period of the year and imports only gained by 4.7 percent as compared to the prior quarter. The forecast shows the favorable trend in foreign trade will continue for the rest of this year.

REAL GROWTH

7. World grain supplies are at a 20 year low. The whims of nature are not exactly predictable, but it looks like the winter wheat crop in this nation could be a record harvest. Such wheat accounts for about 3/4ths of all such grain here. This crop was sown in the fall, and it is harvested in the early summer.

This good news is balanced by the conditions of depression in some industries. Because of that, the middle half of the year doesn't look promising. In the pits are the housing industry, savings and loan associations, construction, and automobiles.

Savings and Loan Associations have recorded the largest losses in their history. In April, there was a record net savings outflow of $4.6 billion. It is no surprise that the much higher rate of interest available from money-market funds was a prime cause. (It is a wonder that more people do not take steps to see that their money earns well over 10 percent instead of interest in perhaps half that at the local savings and loan establishment.) The issue of security of a place to sock away some funds is involved here with money market funds being seen as risky by the less frisky in particular.

The auto sales picture is misleading when one ignores what was typical in the last few years. Auto sales were headlined as being off by 1.7 percent in April as compared to the year-earlier figure. But the 1980 total was very depressed itself: being 31 percent lower than the April, 1979, total. Domestic makers were selling cars at a daily rate in April that was the slowest since the depressed rates in the spring of 1975.

REAL GROWTH

The other major depressed industry is construction. Building spending was down in both February and in March. Although construction in March was 4.6 percent above the level of 12 months earlier, that 1980 total was depressing by itself: a small gain from that low level is not enough to cause much cheering.

Another factor to consider is the general lack of balance in industry. The depressed industries were just mentioned, but others are doing well and some are just about stable. The lack of balance can be seen in the following table. Using the Index of Industrial Production as a basis for forecasting shows a wide diversity.

Yearly Percentage Change in the Index of Industrial Production
for Selected Industries (Products)
(1967=100)

	1978-79	1979-80	1980-81	1981-82
All Items	+ 4.4	- 3.5	+ 4.2	+ 4.5
Chemicals and Products	+ 7.3	- 2.4	+ 9.1	+ 9.8
Plastic Products	+11.9	- 1.4	+ 9.6	+ 8.4
Structural Clay Products	+ 1.9	-19.7	- 4.9	+ 8.1
Steel Mill Products	+ 1.2	-17.8	+26.2	+ 5.4
Motor Vehicles and Parts	- 5.9	-25.7	+ 5.1	+ 4.8
Aerospace	+15.4	+ 2.4	+ 3.0	+12.0
Cement	+ 5.6	-10.5	- 2.1	+ 3.7

REAL GROWTH

The table here shows a return to a more normal pattern in U.S. manufacturing in general not any earlier than 1982. This is mainly because the construction and housing industries (structural clay products, cement) won't recoup any before the latter part of 1982. Other industries that will not see improvement until 1982 are mainly as follows: lumber, furniture, appliances, glass, textile, apparel, and leather and products.

The steel industry will catch up in 1981. KEDI's forecast also shows the current year as a good one for the rubber industry; paper, printing and publishing; oil and gas extraction; food; electrical and nonelectrical machinery; and ordnance and accessories. Chemicals, plastics, and aerospace industries are also on the normal level currently.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.0	1519.4	1521.6	1530.6	1521.9
Index of Industrial Production	1967=100	147.1	151.8	153.1	153.6	154.7	153.3
Unemployment Rate	%	7.2	7.4	7.4	7.4	7.4	7.4
Capacity Utilization Rate	%	78.7	78.6	79.8	80.6	81.7	80.2
Private Housing Starts	mil. units	1.303	1.361	1.403	1.426	1.367	1.389
Car Sales	mil. units	9.1	10.2	9.9	9.4	10.1	9.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1521.9	1539.7	1554.7	1572.6	1591.4	1564.6
Index of Industrial Production	1967=100	153.3	155.8	158.1	161.9	164.8	160.2
Unemployment Rate	%	7.4	7.3	7.3	7.0	7.0	7.2
Capacity Utilization Rate	%	80.2	82.4	83.8	84.6	85.7	84.1
Private Housing Starts	mil. units	1.389	1.297	1.522	1.592	1.535	1.426
Car Sales	mil. units	9.9	10.0	9.7	10.3	10.9	10.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1564.6	1607.2	1625.4	1643.7	1665.8	1635.5
Index of Industrial Production	1967=100	160.2	166.1	169.7	173.7	175.4	171.2
Unemployment Rate	%	7.2	6.9	6.7	6.6	6.3	6.6
Capacity Utilization Rate	%	84.1	86.1	86.9	87.4	88.6	87.3
Private Housing Starts	mil. units	1.426	1.504	1.868	1.960	1.781	1.778
Car Sales	mil. units	10.2	10.2	10.0	10.4	11.0	10.4

* Historical Data

1.20 PRICES
(Table 1.20 on page 14)

As compared with the previous forecast, this one has been changed: the projections have been lowered for inflation as measured by the Consumer Price Index, Producer Price Index, and GNP Implicit Price Deflator as shown in Table 1.02.

The basic reason is the downward revision in the prices of oil and oil products. Also, there has been a change in the development of food prices. Those at the OPEC meetings going on at this writing are debating the price and production of oil. Saudi Arabia has been refusing to raise its price. (We are grateful for small favors.) They produce over 40 percent of the OPEC output. Their benchmark price is $32 per barrel. Other OPEC nations use a figure of $36. The ceiling price has been at $41 this year. The glut of oil is growing, and a bit of price lowering is expected to last into the middle of next year as a result of that glut. Hence, energy prices will not be gaining as much as had been expected earlier.

KEDI now forecasts the international price of oil this year at $36 per barrel. In 1982 it will go up to $39-40; in 1983, to $44; in 1984, the price anticipated is $48; and in 1985, the forecast is for a per barrel price of $52.

Food prices have been reduced in the projection. For one thing, meat supplies are greater than what traders thought they would be and

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consumers are not buying as much as was anticipated. The rise in interest rates adversely affects the profitability of raising cattle. Herds are sold off more quickly by cattlemen (that finance a good part of their business with bank loans) in order to lessen the interest they pay by repaying the loan as quickly as possible.

KEDI has reduced the inflation rate expected for food from approximately 10.5 to 9.8 percent for this year over last year. In 1982, the new projection for food prices shows a 9.7 percent rise over the current year as opposed to the calculation of 10.1 percent used formerly. The moderation in the rise in food prices is a temporary one. (Regarding food, a comparison may make our prices seem less objectionable. The typical British family earns less than the typical American family but has to pay about twice as much for a dozen eggs or a pound of beef.)

These two changes result in a reduction of the forecast for the Consumer Price Index upward change from 11.8 percent to 10.9 percent for 1981 over 1980.

Hourly earnings will continue to go up in the 10 percent range each year. That will result in continued price hikes. The inflation-adjusted earnings of the typical American worker in the 12 months ending in April were down by 0.6 percent. This will contribute to a push for even larger wage contracts to help make up some of the loss regardless of the rate of inflation this year. The forces contributing to the underlying rate of inflation remain basically unchanged.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	246.7	262.9	270.9	278.6	286.4	274.7
Producer Price Index, NSA	1967= 100	269.8	287.3	299.5	306.2	314.1	301.8
Implicit GNP Price Deflator	1972= 100	177.4	188.3	192.9	196.5	200.8	194.6
Gross National Product	bil. $	2626.1	2853.8	2930.9	2989.9	3073.4	2962.7
Personal Consump Expenditures	bil. $	1672.8	1805.8	1838.5	1870.3	1916.2	1857.7
Gross Private Dom. Investment	bil. $	395.3	435.4	454.3	461.5	477.8	457.3
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	274.7	295.4	297.8	304.6	313.7	302.9
Producer Price Index, NSA	1967= 100	301.8	320.8	328.6	334.3	341.5	331.3
Implicit GNP Price Deflator	1972= 100	194.6	204.7	208.1	212.0	215.0	210.0
Gross National Product	bil. $	2962.7	3151.8	3235.3	3333.9	3421.5	3285.6
Personal Consumpt Expenditures	bil. $	1857.7	1956.1	1996.8	2065.3	2108.3	2031.6
Gross Private Dom. Investment	bil.$	457.3	496.9	512.4	523.3	545.4	519.5
Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967= 100	312.9	320.1	327.5	337.0	344.2	332.2
Producer Price Index, NSA	1967= 100	331.3	349.6	356.4	365.7	371.2	360.7
Implicit GNP Price Deflator	1972= 100	210.0	219.1	224.4	229.1	233.8	226.6
Gross National Product	bil. $	3285.6	3521.4	3647.4	3765.7	3894.6	3707.3
Personal Consump Expenditures	bil. $	2031.6	2165.7	2254.5	2342.5	2443.9	2301.6
Gross Private Dom. Investment	bil. $	519.5	566.4	584.8	597.2	607.4	588.9

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 16)

The forecast concerning the unemployment rate remains basically unchanged here. In its outlook for 1981-82, KEDI has always seen the unemployment rate at a lower level than most others making calculations for those years. (See Overview, page 6.) KEDI still maintains that the unemployment rate will gradually keep on declining as can be seen in the table on the following page. Such a view is given support by the newly generated Leading Employment Index introduced by the Rutgers University Center for International Business Cycle Research. They feel their monthly index will give an advanced look of three to six months. April's index was at 145.2 percent of the 1967 average;up from the 143.6 of both March and February. The April figure is a record when viewed with indices of the decades prior for which Rutgers constructed comparable data.

The forecast here at KEDI for the workweek and overtime does show a slight change: a small increase in the fourth quarters of this year and next year when compared to the previous calculations.

Quarterly Averages: Workweek and Overtime

	Workweek Hours	Overtime		Workweek Hours	Overtime
1981: 1	35.4	2.9	1982: 1	35.9	3.3
2	35.4	3.0	2	36.0	3.4
3	35.6	3.0	3	36.3	3.4
4	35.9	3.2	4	36.7	3.5

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.4	99.1	99.8	98.9
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	95.1	95.8	96.5	95.5
Unemployment Rate	%	7.19	7.34	7.37	7.42	7.38	7.38

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.9	100.4	101.1	102.2	102.9	101.7
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.5	97.0	97.7	98.9	99.6	98.3
Unemployment Rate	%	7.38	7.30	7.28	7.02	7.01	7.15

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.7	104.1	105.4	106.0	107.0	105.7
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.3	100.9	102.0	102.7	103.6	102.3
Unemployment Rate	%	7.15	6.85	6.74	6.56	6.27	6.61

* Historical Data

EMPLOYMENT AND LABOR

Total employment went up by 0.6 percent in April to an adjusted 99 million. In March there was a gain of 0.5 percent over the prior month. Unemployment declined by 0.2 percent in terms of the number of unemployed seeking work. The total here was 7,750,000.

The unemployment rate edged down a bit to 5.8 percent in April from 5.9 in March for adult men. The rate for teenagers was unchanged at 19.1 percent, and the rate for adult women remained at 6.6 percent. The average workweek was the same in both March and April: 35.3 hours.

1.40 HOUSING

(Table 1.40 on page 19)

There are only minor changes in the housing forecast. Due to the impact of the upward revision in the forecast of mortgage rates for 1981-82, the outlook for the housing industry has been slightly reduced when compared to data in last month's issue. The basic underlying trend in housing activity foreseen remains unchanged: 1981 is seen as depressed and sluggish; 1982, some slow growth; 1983, a return to a more normal level of housing activities.

At the present time, the situation is not encouraging. The Home Builders Association estimates that over 320,000 new single-family houses are unsold due to the high interest rates. Still, KEDI does not see the near future as being quite as bad as the National Association of Home Builders. That group revised their forecast for total housing starts this year in early May from about 1.4 down to 1.3 million, and it was indicated that it would be lowered again to 1.2 million because of the lack of funds. KEDI estimates housing starts at a total of 1.4 million for this year which will be down 11 percent from the depressed 1980 total. In 1982, the total expected is 1.6 million. That is hardly good, but it is not disaster.

Most home builders have to borrow to construct their buildings and they usually have to pay at least a point or two above the prime rate. This Institute agrees with the view of Murray Weidenbaum, chairman of the President's Council of Economic Advisers, that the current high rates will not last. Yet costly credit (but not quite as costly as current painful bites) is part of the long-term attempts to lessen the economic problems of this nation.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.889	.896	.865	.875
Multifamily Housing Starts	mil.	.473	.511	.514	.530	.502	.514
Mobile Home Shipments	mil.	.222	.248	.275	.280	.264	.267
Housing Permits Issued	mil.	1.117	1.167	1.031	1.006	1.081	1.071
Construction Costs-Commerc.	1972=100	198.5	208.7	215.3	218.6	227.4	217.5
Construction Costs-Resident.	1972=100	198.6	209.5	216.0	218.6	227.5	217.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.875	.828	.984	1.014	.989	.954
Multifamily Housing Starts	mil.	.514	.469	.538	.578	.546	.533
Mobile Homes Shipments	mil.	.267	.258	.284	.314	.328	.296
Housing Permits Issued	mil.	1.071	1.109	1.375	1.482	1.786	1.438
Construction Costs-Commerc.	1972=100	217.5	234.9	246.3	254.0	259.0	248.6
Construction Costs-Resident.	1972=100	217.9	232.0	243.4	249.5	256.6	245.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.954	.914	1.167	1.236	1.114	1.108
Multifamily Housing Starts	mil.	.523	.590	.701	.724	.667	.670
Mobile Homes Shipments	mil.	.296	.340	.359	.378	.341	.354
Housing Permits Issued	mil.	1.438	1.354	1.628	1.753	1.714	1.612
Construction Costs-Commerc.	1972=100	248.6	266.1	275.7	283.8	294.6	280.1
Construction Costs-Resident.	1972=100	245.4	260.2	275.3	279.2	286.1	275.2

* Historical Data

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 21)

The updated Assumption No. 4 has been incorporated into the forecast here. That is, until April, 1981, it was assumed here that the Administration's tax-cut proposal of 10 percent a year for three years would be effective as of July first this year and another 10 percent off effective on July 1 next year, etc.

Now, KEDI assumes the first tax cut will be postponed in terms of an effective date until the first of October and will amount to 5 percent. That is the compromise recently settled between the White House and Capitol Hill. The plan proposed by both the conservative House Democrats and Republican Senator Dole calls for a 5 percent cut this fall and 10 percent in July of each of the next two years for a total of 25 percent. It now appears that the compromise proposal will have a better chance of becoming law than the original Reagan proposals. Calculations show that this change in the Administration's tax cut proposal would reduce the Federal budget deficits. However, its effects on reducing the rate of inflation will be not significant.

The change in the assumption about the tax cuts leads to the following revised estimates of the deficit.

Federal Deficits Forecast in Calendar Years (Billions $)

	Revised KEDI Forecast	Previous Forecast
1981	-49.1	-51.5
1982	-33.5	-34.8
1983	-29.3	-37.9
1984	-22.9	-26.8

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.2	295.7	301.8	302.8	295.9
Corporate Profit Tax Accruals	bil. $	70.1	77.3	81.4	85.6	94.0	84.6
Surplus./Deficit	bil. $	-61.2	-44.4	-50.1	-49.6	-52.3	-49.1
State and Local Governments:							
Income Taxes	bil. $	80.7	88.7	90.1	93.0	93.8	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.9	16.3	17.5	15.5
Surplus./Deficit	bil. $	29.1	37.9	39.1	40.6	38.2	39.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	295.9	308.9	317.3	319.5	329.8	318.9
Corporate Profit Tax Accruals	bil. $	84.6	102.1	108.3	114.6	124.1	112.3
Surplus./Deficit	bil. $	-49.1	-40.1	-31.2	-33.3	-29.2	-33.5
State and Local Governments:							
Income Taxes	bil. $	91.4	96.6	100.2	103.8	105.9	101.6
Corporate Profit Tax Accruals	bil. $	15.5	18.0	19.6	20.8	21.9	20.1
Surplus./Deficit	bil. $	39.0	36.4	35.7	34.9	33.8	35.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	318.9	339.6	351.4	360.7	370.9	355.7
Corporate Profit Tax Accruals	bil. $	112.3	131.7	138.2	143.6	149.7	140.8
Surplus./Deficit	bil. $	-33.5	-30.5	-27.6	-31.4	-27.5	-29.3
State and Local Governments:							
Income Taxes	bil. $	101.6	108.4	112.6	114.7	116.5	113.1
Corporate Profit Tax Accruals	bil. $	20.1	22.7	24.0	25.0	26.8	24.6
Surplus./Deficit	bil. $	35.2	32.6	33.8	34.5	35.6	34.1

* Historical Data

GOVERNMENT BUDGETS

In both 1983 and 1984, it is assumed here that budget cuts will exceed the previous forecast estimate by $4 billion and $2 billion, respectively. As a result, gaps of about $8 billion in 1983 and of about $4 billion in 1984 exist between this and the deficit forecast in the April issue.

The projection of surpluses of State and Local Budgets had been increased mainly due to the lower projection of their transfer expenditures in the 1981-83 years.

1.60 INCOME

(Table 1.60 on page 23)

Compared with the previous forecast, the data for Personal Disposable Income have been slightly decreased mainly due to the adjustments in Assumption No. 4. As described in the section on government budgets, a tax cut of 5 percent is now expected in the fall of this year instead of 10 percent in June.

The forecast for real personal disposable per capita income shows the impact of lower inflation rates in 1981-85 and the impact of the income tax cuts. Such income will start to increase modestly in the 1982-83 years and at a slightly better pace in 1984-85. At least, then, many won't feel they are still working harder, or more, only to avoid falling behind further.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2318.7	2396.2	2429.9	2497.1	2410.5
Personal Dispos. Income	bil. $	1821.7	1946.9	2010.4	2035.0	2101.5	2033.5
Compensation of Employees	bil. $	1596.5	1721.9	1766.8	1780.4	1825.5	1773.7
Corp. Profits After Tax	bil. $	163.1	168.3	173.1	180.6	188.3	177.7
Personal Saving	bil. $	101.3	92.2	95.7	97.3	105.6	97.7
Average Weekly Earnings	$	297.4	310.5	313.0	315.8	321.9	315.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2410.5	2559.2	2613.8	2703.2	2770.6	2661.7
Personal Dispos. Income	bil. $	2033.5	2153.7	2196.3	2279.9	2334.9	2241.2
Compensation of Employees	bil. $	1773.7	1864.2	1900.8	1963.9	2003.0	1933.0
Corp. Profits After Tax	bil. $	177.7	190.5	197.7	202.4	207.8	199.6
Personal Saving	bil. $	97.7	106.0	122.3	120.3	110.2	112.2
Average Weekly Earnings	$	315.3	324.5	328.8	336.8	343.1	333.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2661.7	2843.6	2955.5	3065.9	3169.9	3008.7
Personal Dispos. Income	bil. $	2241.2	2395.6	2491.5	2590.5	2682.5	2540.0
Compensation of Employees	bil. $	1933.0	2046.3	2126.7	2206.8	2284.3	2166.5
Corp. Profits After Tax	bil. $	199.6	215.7	217.8	222.2	228.6	221.1
Personal Saving	bil. $	112.2	112.5	113.9	127.9	123.2	119.4
Average Weekly Earnings	$	333.3	348.6	352.8	358.7	365.4	356.4

INCOME

Per Capita Real Personal Disposable Income, Percentage Change from the Previous Year

1981	1982	1983	1984	1985
-1.5	+0.2	+0.4	+1.1	+1.5

The forecast of corporate after tax profits remains essentially unchanged when compared with the April issue.

1.70 MONEY AND CREDIT

(Table 1.70 on page 25)

As compared with the forecast made last month, the data for currency and demand deposits, M1A, have been reduced mainly due to the recent tightening of the money supply by the Federal Reserve. It is now expected that monetary policy will remain tight during the rest of this quarter and in the third quarter. Some relaxation is expected, but not before the last quarter of this year.

KEDI has lowered the forecast data for Commercial and Industrial Loans and Consumer Installment Credit for the 1981-82 period. It has been increased a bit for 1983. On balance, these changes are not very large when compared to the data in the April issue.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	367.5	368.3	372.6	378.5	371.7
Time Deposits, Adjusted, M2	bil. $	1596.2	1692.7	1718.8	1740.1	1758.5	1727.5
Consumer Instal. Credit	bil. $	313.4	310.8	314.5	321.6	329.7	329.7
Commerc. & Industr. Loans at Banks	bil.$	325.3	320.7	324.0	326.6	331.3	331.3
Negotiable Cert. of Deposits	bil. $	129.2	132.1	136.6	140.4	144.9	144.9
Mortgages at S & L Assns.	bil. $	502.7	506.8	507.0	508.2	511.2	511.2

Indicator	Unit	1931	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	371.7	386.3	392.4	398.9	406.7	396.1
Time Deposits, Adjusted, M2	bil. $	1727.5	1779.3	1795.6	1834.3	1872.7	1820.5
Consumer Instal. Credit	bil. $	329.7	336.4	342.7	349.6	355.9	355.9
Commerc. & Industr. Loans at Banks	bil. $	331.3	336.2	340.7	350.2	356.9	356.9
Negotiable Cert. of Deposits	bil. $	144.9	148.2	151.1	156.3	159.7	159.7
Mortgages at S & L Assns.	bil. $	511.2	514.6	521.3	524.5	530.8	530.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	396.1	414.6	424.8	436.5	449.7	431.4
Time Deposits, Adjusted, M2	bil. $	1820.5	1804.6	1941.5	1986.3	2030.7	1965.8
Consumer Instal. Credit	bil. $	355.9	364.7	371.8	378.3	384.1	384.1
Commerc. & Industr. Loans at Banks	bil. $	356.9	360.1	370.9	378.7	383.4	383.4
Negotiable Cert. of Deposits	bil. $	159.7	164.6	167.2	169.4	170.3	170.3
Mortgages at S & L Assns.	bil. $	530.8	537.6	542.4	549.6	553.4	553.4

MONEY AND CREDIT

The projection here is that the demand for commercial and industrial loans will be strong throughout the rest of this year and in 1982 despite the recent surge in interest rates. It is also anticipated here that consumers' demand for loans will continue to gain regularly this year and next year.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES
(Table 1.80 on page 28)

KEDI considers last week's leap in interest rates as more of a temporary phenomenon than as a lasting condition. It is considered to be highly improbable that any further increases of any lasting nature will be added to the already high rates.

The prime rate jumped ahead to 20.5 percent in most of the major banks last week. The record of 21.5 percent was reached last December. A year ago the prime rate was at 14 percent. (Does that seem like the good old days?) On page 28 of the March issue, KEDI indicated that a prime rate of 20 percent or more was not anticipated here. Most other economists were also surprised by the Federal Reserve action that further tightened credit drastically.

KEDI's newest prediction shows that the prime rate will be in the 21 percent range at the end of this quarter and the beginning of the third quarter. A decline will start gradually. The 17-18 percent bracket will be reached by the end of this year.

The developments of the last few days show that the surge in interest rates is either close to the peak or has already reached the peak. Short-term interest rates fell sharply. For example, 13-week Treasury bill closed at 15.94 on May 24. They were averaging 16.75 a few days earlier. Rates on three-month CDs rolled down to below 18 percent from being above 19 percent a few days earlier.

The view of Mr. Kellner of Manufacturers Hanover Trust that the next change in the prime rate will be down if the high prime rate remains for a few days (it is still with us at this writing) is shared here.

In general, foreign interest rates are around 13-14 percent, and there are no indications that they will rise significantly in the foreseeable future. U.S. interest rates presently around 19-21 percent cannot deviate from the world level for long. That supports our assumption that the current stratospheric level of interest rates will not last very long.

Compared with the previous forecast, this one is, on the average, higher by 1 percent for the rest of the 1981-83 years for the prime rate. The forecast for the three-month Treasury bill rate has been moved up by 1 to 1½ percent, and the mortgage rate was raised in the forecast by 0.5 percent.

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	13.96	15.87	15.06	14.41	14.82
Prime Rate	%	15.10	19.06	18.92	19.09	18.31	18.84
Mortgage Rate, New Homes	%	12.96	14.46	14.62	14.38	14.12	14.40
Aaa Bonds Rate	%	11.96	13.47	13.56	13.47	13.39	13.47
Long Term Govt. Bonds Yield	%	11.39	12.42	12.76	12.70	12.53	12.60
Standard & Poor's 500 Average	1941-43 =10	118.71	132.83	131.48	130.76	132.51	131.90

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.82	13.86	13.42	12.56	12.27	13.03
Prime Rate	%	18.97	17.74	17.32	16.67	16.38	17.03
Mortgage Rate, New Homes	%	14.40	13.57	13.62	13.64	13.51	13.59
Aaa Bonds Rate	%	13.47	12.75	11.98	11.47	11.15	11.84
Long Term Govt. Bonds Yield	%	12.60	12.32	12.46	12.75	12.91	12.61
Standard & Poor's 500 Average	1941-43 =10	131.90	131.26	132.68	134.86	137.09	133.97

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.03	12.47	12.59	12.85	13.24	12.79
Prime Rate	%	17.03	16.24	16.02	16.14	16.37	16.19
Mortgage Rate, New Homes	%	13.59	13.21	13.47	13.52	13.26	13.37
Aaa Bonds Rate	%	11.84	11.08	11.51	11.64	11.87	11.52
Long Term Govt. Bonds Yield	%	12.61	12.65	12.14	11.90	11.32	12.00
Standard & Poor's 500 Average	1941-43 =10	133.97	136.93	135.71	136.94	138.75	137.08

* Historical Data

INTEREST RATES, YEILDS, AND SECURITIES PRICES

The forecast of the stock market, as measured by Standard and Poor's 500 average remains basically unchanged.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Consumer Price Index for the first quarter of 1981 has been selected for comparison. Actual figures for January and February are in Weekly Business Statistics, Supplement to the Survey of Current Business, (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), and for March 1981, in the Wall Street Journal, April 24, 1981. Forecast data are from the Business Forecasts 1980, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, KEDI, Manufacturers Hanover Trust, and Chemical Bank were on the mark.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
CONSUMER PRICE INDEX
(First quarter 1981, 1967=100)

Actual: 262.9

	Page of Business Forecasts 1981	Forecast	%of Accuracy
Georgia State University	23	265.0	+ .8
The First National Bank of Chicago	24	262.5	.0
Manufacturers Hanover Trust	25	260.9	- .1
Chemical Bank	26	262.7	.0
KEDI	33	263.0	.0
Fidelity Bank	34	264.9	+ .8
Morgan Guaranty	35	265.5	+1.0
Chase Econometrics	36	264.3	+ .5
Bankers Trust	30	263.9	+ .4

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KEDI ECONOMIC SURVEY

June 30, 1981

President: Vladimir J. Simunek

This updated monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State Universtiy Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Kent Student Center, KSU Campus, Kent, OH 44242, U.S.A. Kent State University Foundation, Inc., and Kent Economic and Development Institute are not liable for any claims based on deviation of forecast data from actual data. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

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1.01 OVERVIEW

The forecast presented here remains essentially unchanged when compared with the May issue. There are four basic reasons involved.

First, the assumption here of the Administration's budget cuts have been confirmed by the recent approvals of the Senate and the House. Budget cuts and tax cuts have been assumed here since November of 1980.

A coalition of conservative Democrats and Republicans have become dominating in Congress. Late in June, the Democratic House voted 217 to 211 to cut $35.6 billion from the fiscal 1982 budget. The Senate approved a similar budget by 80 to 15.

Secondly, federal income tax cuts of 25 percent were incorporated in the forecast last month. (Previously, cuts of 30 percent had been assumed here.) Indications point to approval of the tax cuts.

Thirdly, it has been maintained here, since 1980, that the second and third quarters of this current year would be sluggish and lack balance, and that the fourth quarter of 1981 would show more significant growth. Recently released data confirm that trend. Hence, there is no need to change the assumptions.

Fourth, the assumptions concerning good harvests in 1981 also remain the same and are being confirmed. The Agriculture Department still expects a record crop of winter wheat in excess of 2 billion bushels.

That is a gain of about 6 percent over last year, despite allowances for the severe storms in the Farm Belt.

There is one main area of change in this issue. Due to the disputes and negotiations among OPEC nations, the forecast for the price of oil has been changed. That results in different predictions for the changes in prices expected as measured by the Consumer Price Index. In the May issue, the 1981 inflation rate was set at 10.9 percent. That is now reduced to 10.2 percent.

An Oil Minister from a South American nation reported that OPEC members were worried about the increasing use of coal for power generating and conservation measures being more successful than they ever anticipated. (No sympathy here for their worries.) Some members feel the oil glut could last two or even three years. Based on that, there is some pressure for a price freeze for at least two years. This is one of the indications that the price of oil will stabilize. Consequently, the pressure on prices for oil and related products in this country will ease.

Again, focusing on the current year, KEDI agrees with Commerce Secretary Malcolm Baldrige: the middle two quarters of this year will not have any zip, and there will be growth in the fourth quarter. Overall, the growth in real GNP anticipated by the Administration in 1981 as compared to the prior year has been increased from 1.1 percent to 2.6 percent due to the strong first quarter performance.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the April, 1981 issue, the changes concern the updates of Assumption No. 1.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will be in the $35 range. In 1982, it is expected the price will go up to $37-38; in 1983, to $40 per barrel; in 1984, to $44 per barrel; and in 1985, $48 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1981-85 period.

4. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted. The only major change in the Administration's proposal will concern the tax cuts. It is assumed that the 5 percent Federal income tax cut will be inacted effective October 1, 1981; and 10 percent cuts effective July 1, 1982 and July 1, 1983, respectively. Increase in state and local taxation is anticipated. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 should bring record crops.

7. It is projected here that the average rates of growth in 1981-85 in the major industrial countries will be as follows for real GNP:

	1981-1985
West Germany	3.1%
Japan	3.6%
Italy	2.4%
Great Britain	2.6%
France	2.9%

8. No drastic changes in existing international relationships are assumed in this forecast.

The June 1981 KEDI forecast is highlighted in Table 1.0 on page 5.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.7	1520.4	1564.6	1751.8
Index of Industrial Production	1967 =100	147.1	152.9	159.2	188.0
Capacity Utilization	%	78.7	80.6	84.0	86.9
Unemployment Rate	%	7.2	7.4	7.2	6.2
Private Housing Starts	mil. units	1.303	1.309	1.446	1.810
Car Sales	mil. units	9.1	9.9	10.3	11.4
Implicit GNP Price Deflator	1972 =100	177.4	193.9	209.1	259.7
Consumer Price Index	1967 =100	246.7	271.8	296.3	409.8
Producer Price Index	1967 =100	269.8	297.1	322.7	436.5
Federal Deficit	bil. $	-61.2	-48.6	-33.1	-19.7
Personal Income	bil. $	2160.2	2400.2	2648.8	3811.4
Prime Rate	%	15.10	18.88	17.20	12.43
Mortgage Rate	%	12.96	14.41	13.71	11.18
Currency plus Demand Deposits	bil. $	377.1	367.4	391.1	463.2
Commercial and Industrial Loans	bil. $	324.9	344.8	369.4	422.5

1.10 REAL GROWTH
(Table 1.10 on page 9)

Although the first quarter seems quite a while ago in these hot June days, an update is in order. It was mid-June when the Commerce Department released its second revision of the growth in GNP that took place in the first three months of this year. The estimate now used by them is 8.6 percent (as opposed to their first estimate of 6.5 and their first revision of 8.4 percent). It is agreed that the first quarter figures were exaggerated by the mild winter, as opposed to severe winters before them. Some economists expect the second quarter to show a decline. KEDI and others anticipate no essential change; ie., a flat quarter. (Last year, real GNP dropped close to 10 percent in the second quarter, but it moved ahead in both the third and fourth periods.)

Recently released data confirm the forecast here of unbalanced growth in the middle quarters of this year. There are both positive and negative signs on the horizon.

1. The Index of Leading Economic Indicators did increase a bit in April. The 0.4 percent rise was preceded by a gain of 1.8 percent in March. This index does have a less-than-perfect record in predicting trends, but it has been fairly accurate for the past 12 months, at least.

2. The Index of Industrial Production gained 6.1 percent in May over the year-earlier figure. The Index was at 152.8 percent of its 1967 average. Much of the May growth was attributed to increased output

of cars as manufacturers built up their inventories again following the rebates and discounts of the previous months.

3. All things considered, the small gain in seasonally adjusted retail sales is still on the side of good news. The tiny upward movement of 0.2 percent followed a decline in April of a revised 2.1 percent. Excluding autos, retail sales were about the same in May as in April. (The figures are not adjusted for inflation.)

4. Factory shipments were practically flat in April when compared to the prior month. Such shipments, seasonally adjusted, remained in the $162 billion range. As there was no real decline, this is seen as a positive sign.

5. The Commerce Department reported that the U.S. had a $3.09 billion, seasonally adjusted, balance of payments surplus on the current account in the first quarter. That was $1.7 billion greater than the surplus of the last period of 1980 and indicates that money is flowing into this nation which exerts a favorable influence on the dollar in terms of exhange rates.

As part of that balance, U.S. trade with China is playing a gradually increasing role. Last year, the value of trade between the two came to almost $5 billion. U.S.A. sales to China amounted to $3.7 billion--representing about 2 percent of all exports of this country. Experts see such trade expanding to as much as $7 billion this year. (Companies glancing toward the market in China are advised to allow at least two years for developing such business by the private "National Council on U.S. - China Trade.") It isn't exactly a pot of gold by a Chinese lantern: Coca-Cola is still limited to selling only to tourists there--not by the people, but by the government.

Nov for the negative news:

6. In early June, car sales gained by more than 10 percent from the year-ago level. However, they were still at very low levels. In the first ten days of June, sales of autosmade here were estimated at slightly more than 174,000. Still, that is the second worst early June recorded since 1961. Hence, it is not considered basic positive news here.

7. New orders for durable goods went down by 0.4 percent in May. That was the first decline since January. It followed a revised gain of 0.1 percent in April from the prior month. New orders for nondefense capital goods were down by 0.5 percent in May. The backlog of orders edged up 0.3 percent.

8. Machine tool orders plunged downward by 25 percent in May from the April level. Industry officials cited the high interest rates and uncertainty over the size of the tax break expected. The debate over what form accelerated depreciation increases will take continues in Congress. That is a factor in causing many machine-tool buyers to put off purchasing for a while.

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.7	1516.4	1518.0	1529.4	1527.7	1520.4
Index of Industrial Production	1967=100	147.1	151.8	152.6	152.9	154.0	152.9
Unemployment Rate	%	7.2	7.4	7.5	7.5	7.4	7.4
Capacity Utilization Rate	%	78.7	79.9	80.1	80.9	81.6	80.6
Private Housing Starts	mil. units	1.303	1.361	1.242	1.343	1.289	1.309
Car Sales	mil. units	9.1	10.2	9.8	9.4	10.1	9.9
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1520.4	1539.4	1554.6	1572.7	1591.9	1564.6
Index of Industrial Production	1967=100	152.9	155.4	157.6	160.3	163.4	159.2
Unemployment Rate	%	7.4	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	80.6	82.2	83.6	84.5	85.8	84.0
Private Housing Starts	mil. units	1.309	1.233	1.475	1.575	1.503	1.446
Car Sales	mil. units	9.9	10.1	9.8	10.3	10.9	10.3
Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1564.6	1607.3	1625.6	1643.9	1666.7	1635.9
Index of Industrial Production	1967=100	159.2	166.5	169.5	173.6	175.4	171.3
Unemployment Rate	%	7.2	6.9	6.8	6.7	6.4	6.7
Capacity Utilization Rate	%	84.0	86.1	86.7	87.5	88.4	87.2
Private Housing Starts	mil. units	1.446	1.450	1.850	1.916	1.750	1.743
Car Sales	mil. units	10.3	10.2	10.0	10.5	11.0	10.4

* Historical Data

9. The monthly survey of purchasing managers showed the rate of buying "stalled" in June. The survey showed that just 19 percent said their new orders were up--as opposed to 32 percent citing gains in the May survey.

KEDI views the news in durable goods, machine tool orders, and the survey of purchasing managers to be temporary. It is expected here that the last quarter of this year will show significant improvement in these three areas, at least.

1.20 PRICES

(Table 1.20 on page 13)

The inflation rate in May moved ahead by more than three points from the April rate. Pushed by housing costs, the annual rate of inflation in May reached 8.4 percent. Prices this May were 9.8 percent above the year-earlier figure. That is single digit inflation, but it is not that far from being double digit.

For the month of May, prices went up 0.7 percent which was attributed mostly to housing costs reflecting the higher interest rates. Housing costs went up 1.3 percent.

A little good news: gasoline prices fell by 1.5 percent in May from the April level. Food and beverage prices did show a small decline of 0.2 percent. However, new car prices were up by 2.4 percent. Medical care costs continued to rise. They were up 0.9 percent in May and were led by the 1.1 percent gain in Doctors' fees. (If you have not had a physician's bill in the last year or so, here is a salute to your good health and a warning not to be surprised by the cost of an office visit being quite a few dollars more on your next trip which we hope is routine.)

This forecast contains a decrease in the rate of inflation when compared with the previous forecast of this Institute. Instead of an anticipated rate of inflation as measured by the Consumer Price Index of 10.9 percent, a rate of 10.2 percent for this year as compared to 1980 is now used. The rate calculated for 1982 is now 9.8 percent. The reduction is mainly due to the downward revision of increased in prices of energy related items, housing and food for this year and next year.

Recent forecasts of price gains by three other forecasters are included:

	1981	1982
KEDI	10.2%	9.8%
Data Resources	10.0%	8.7%
Morgan Guaranty	9.7%	7.5%
Gary Shilling & Co.	9.8%	8.0%

Murray Weidenbaum, chairman of the Council of Economic Advisers, views the Administration prediction of an 11.1 percent hike in consumer prices as being too high. The White House has not yet decided when to revise their forecast.

KEDI is not as pessimistic as the currently available Administration figure indicates. KEDI is not as optimistic as the other three forecasters just cited. The main reasons here concern labor contracts and productivity.

In 1982, large wage settlements will take place, mainly in the auto, rubber, and machinery fields, It is not expected at this Institute that the contract negotiations will result in much less than 10 percent yearly wage increases. That will not allow any significant decline in the share of labor costs in the value of output. Labor costs are one of the main sources of pressure on prices. Consequently, there will not be any meaningful decline in the rate of price gains.

A second reason that KEDI views the inflation rate as higher than many other forecasters is that meaningful gains in productivity are not expected this year, or next year, or even in 1983. Significant gains in productivity are not going to occur before 1984, according to calculations here. At that time, they will contribute to slowing down the rate of inflation.

On the brighter side, KEDI is not as pessimistic as Henry Kaufman according to a quote on the front page of the June 16 issue of The Wall Street Journal. It seems he thinks the policy of large tax cuts and higher defense spending are "exceedingly expansionary" and will make it hard to cool inflation.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are
seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	262.9	269.5	274.7	280.2	271.8
Producer Price Index, NSA	1967=100	269.8	287.3	294.8	300.4	305.9	297.1
Implicit GNP Price Deflator	1972=100	177.4	188.1	192.0	195.7	199.8	193.9
Gross National Product	bil. $	2626.1	2853.0	2915.0	2973.4	3052.3	2948.2
Personal Consump Expenditures	bil. $	1672.8	1810.1	1829.1	1860.3	1901.5	1850.2
Gross Private Dom. Investment	bil. $	395.3	437.1	456.0	463.2	479.6	459.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	271.8	287.3	292.4	298.7	306.9	296.3
Producer Price Index, NSA	1967=100	297.1	311.6	319.7	325.8	333.8	322.7
Implicit GNP Price Deflator	1972=100	193.9	204.0	207.5	211.4	214.5	209.1
Gross National Product	bil. $	2948.2	3125.3	3223.6	3324.5	2414.7	3272.5
Personal Consumpt Expenditures	bil. $	1850.3	1936.2	1993.6	2062.3	2108.0	2025.0
Gross Private Dom. Investment	bil.$	459.0	498.6	514.1	525.0	546.9	521.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	296.3	312.1	318.7	325.5	331.9	322.1
Producer Price Index, NSA	1967=100	322.7	339.1	347.6	355.4	361.1	350.8
Implicit GNP Price Deflator	1972=100	209.1	218.6	223.8	228.4	233.1	226.0
Gross National Product	bil. $	3272.5	3513.6	3637.9	3754.6	3885.1	3697.8
Personal Consump Expenditures	bil. $	2025.0	2165.0	2251.7	2337.8	2440.9	2298.7
Gross Private Dom. Investment	bil. $	521.2	568.1	586.5	598.9	609.1	590.6

*Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 15)

The unemployment rate in May moved upward to an adjusted 7.6 percent of the labor force from the April level of 7.3 percent. The economy did expand some through the first quarter of this year and including the last half of 1980, but the growth in the size of the labor force outstripped the economic growth. The head of the Labor Department bureau that puts out such data, Janet Norwood, estimates that 2.3 million workers were added to the labor force in the last year.

Total employment rose by 0.3 percent in May, but the number unemployed went up 5.5 percent to an adjusted 8.2 million. White unemployment increased to 6.8 percent from the April level of 6.5. Black joblessness gained by 0.4 points to 13.6 percent.

As compared with the previous forecast of 7.4, this one anticipates unemployment for 1981 averaging 7.5 percent. Figures for 1982 and 1983 are essentially unchanged. It is not expected here that there will be any dramatic rise in this rate during these years.

KEDI agrees with the view expressed by Geoffrey Moore of the Rutgers Center for International Business Cycle Research, among others, that the outlook for employment is generally good for the next few months.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	2230.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	104.7	105.8	106.2	107.1	107.7	106.7
Employed	mil.	97.1	98.0	98.2	99.1	99.7	98.8
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	94.7	94.9	95.7	96.4	95.4
Unemployment Rate	%	7.19	7.34	7.52	7.50	7.43	7.45

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	106.7	108.3	109.0	109.9	110.7	108.5
Employed	mil.	98.8	100.3	101.0	102.3	102.9	101.6
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	95.4	96.9	97.6	99.0	99.6	98.2
Unemployment Rate	%	7.45	7.41	7.32	7.10	7.08	7.23

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	321.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	109.5	111.9	113.0	113.4	114.2	113.1
Employed	mil.	101.6	104.2	105.3	106.8	106.9	105.8
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	98.2	100.9	101.9	102.5	103.5	102.3
Unemployment Rate	%	7.23	6.92	6.83	6.71	6.42	6.72

* Historical Data

The forecast of the average workweek and overtime remains unchanged from last month's issue. Very gradual gains are foreseen here.

1.40 HOUSING
(Table 1.40 on page 17)

The forecast for housing starts in both 1981 and 1982 has been revised downward. Previously, KEDI calculations showed starts amounting to 1.4 million in 1981 and 1.5 in 1982. The revised forecast here shows 1.3 million starts for this year and 1.4 for 1982. The main reason for this reduction centers on interest rates.

Very high mortgage rates have lasted longer than was forecast here. That has had an obvious negative impact on the housing industry. The majority of economists and professionals share the view that housing will remain depressed until interest rates come down. KEDI maintains its forecast of a substantial recovery by 1983, as can be seen in Table 1.40 on page 16.

Speaking of depressed, the Mortgage Bankers Association of America released figures that showed a new record was set in the first quarter of this year for homeowners being late with their mortgage payments. A record high delinquency rate of 5.31 percent was reached. (Illinois had the highest rate, 8.54 percent, and South Dakota had the lowest, 2.41.) High unemployment and the stagnation in the auto industry were blamed.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.822	.857	.826	.839
Multifamily Housing Starts	mil.	.473	.511	.420	.486	.463	.470
Mobile Home Shipments	mil.	.222	.248	.279	.284	.256	.267
Housing Permits Issued	mil.	1.117	1.167	1.056	1.002	1.034	1.065
Construction Costs-Commerc.	1972=100	198.5	208.7	214.9	218.0	226.7	217.1
Construction Costs-Resident.	1972=100	198.6	209.5	215.3	217.4	226.8	217.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.839	.819	.956	1.006	.961	.935
Multifamily Housing Starts	mil.	.470	.414	.519	.569	.542	.511
Mobile Homes Shipments	mil.	.267	.261	.289	.319	.337	.301
Housing Permits Issued	mil.	1.065	1.102	1.364	1.491	1.721	1.420
Construction Costs-Commerc.	1972=100	217.1	232.8	243.5	250.7	255.6	245.7
Construction Costs-Resident.	1972=100	217.3	230.4	240.5	244.3	252.7	242.0

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.935	.918	1.161	1.205	1.096	1.095
Multifamily Housing Starts	mil.	.511	.538	.689	.711	.654	.648
Mobile Homes Shipments	mil.	.301	.342	.361	.383	.349	.359
Housing Permits Issued	mil.	1.420	1.350	1.611	1.704	1.683	1.587
Construction Costs-Commerc.	1972=100	245.7	260.2	268.7	275.9	283.4	272.1
Construction Costs-Resident.	1972=100	242.0	255.6	268.9	274.3	279.5	269.6

* Historical Data

Housing starts in May fell by 14 percent to a seasonally adjusted annual rate of 1,152 million units. Starts on single-family houses were down by 16.3 percent and multifamily starts declined by 9.3 percent from the April level on an adjusted basis.

1.50 GOVERNMENT BUDGETS
(Table 1.50 on page 19)

The forecast here remains essentially unchanged. KEDI's projection's of federal budgets for fiscal years 1981-84 are close to that recently approved by the Senate. The Senate approved bill would cut spending by roughly $39 billion in the next fiscal year. Through 1984, the cuts would amount to a whopping $140 billion.

FEDERAL BUDGET PROJECTIONS (Fiscal years, bil. $)

	KEDI	SENATE	Difference in %
1981	667.5	661.4	.9
1982	699.3	692.0	1.1
1983	743.8	733.0	1.5
1984	789.5	776.0	1.7

FEDERAL DEFICIT PROJECTIONS (Fiscal years, bil. $)

	KEDI	ADMINISTRATION
1981	-37.4	-45.2
1982	-31.2	-32.4
1983	-25.8	-15.2
1984	-18.9	+ .5

MONTH: June 1981

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	257.8	283.3	293.8	301.2	303.0	295.3
Corporate Profit Tax Accruals	bil. $	70.1	77.9	81.6	85.7	94.2	84.9
Surplus./Deficit	bil. $	-61.2	-43.4	-50.3	-49.0	-51.7	-48.6
State and Local Governments:							
Income Taxes	bil. $	80.7	88.6	90.0	92.9	93.9	91.4
Corporate Profit Tax Accruals	bil. $	12.2	13.2	15.0	16.2	17.7	15.5
Surplus./Deficit	bil. $	29.1	37.0	38.7	39.4	36.8	38.0

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	295.3	309.1	317.5	319.7	329.6	319.0
Corporate Profit Tax Accruals	bil. $	84.9	102.0	108.1	114.2	124.5	112.2
Surplus./Deficit	bil. $	-48.6	-40.0	-30.2	-33.3	-28.7	-33.1
State and Local Governments:							
Income Taxes	bil. $	91.4	96.7	100.3	104.0	105.6	101.7
Corporate Profit Tax Accruals	bil. $	15.5	18.1	19.8	20.7	22.0	20.2
Surplus./Deficit	bil. $	38.0	34.9	35.2	34.3	32.6	34.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	319.0	339.4	351.9	357.6	370.4	354.8
Corporate Profit Tax Accruals	bil. $	112.2	131.4	138.1	143.2	149.3	140.5
Surplus./Deficit	bil. $	-33.1	-30.1	-25.4	-31.7	-24.3	-27.9
State and Local Governments:							
Income Taxes	bil. $	101.7	108.5	112.8	114.9	116.7	113.2
Corporate Profit Tax Accruals	bil. $	20.2	22.8	24.2	25.3	27.0	24.8
Surplus./Deficit	bil. $	34.3	32.1	32.7	34.1	34.3	33.3

* Historical Data

Data for projections of the deficit are not strictly comparable because different sources were used. The Administration's projection of the deficit is taken from sources published by the Office of Budget and Management in April, 1981. KEDI data are taken from this month's projection. It is shown that KEDI is less optimistic than the Administration. No balanced budget in 1984 is seen here.

1.60 INCOME
(Table 1.60 on page 21)

The general forecast data for income remains essentially the same in this issue as it was in the May issue. In this forecast, the average weekly earnings of factory workers were increased slightly. The reason lies in the average earnings in the auto, machinery, rubber, and chemical industries as being somewhat higher than was previously predicted here.

Generally offsetting that in the gross figures, is the slight decrease made in the forecast here for corporate after-tax profits. The main reason is the downward forecast of profits in both the petroleum and the construction industries.

Actual data for personal income for May showed sluggish growth. It is expected here, however, that future months will show a more normal level of gains in personal income. Two factors responsible here are the settlement of the coal strike and the boost in Social Security payments due in July.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2319.8	2382.5	2416.8	2481.7	2400.2
Personal Dispos. Income	bil. $	1821.7	1947.8	1998.5	2022.6	2084.7	2013.4
Compensation of Employees	bil. $	1596.5	1722.4	1754.0	1767.3	1807.4	1762.8
Corp. Profits After Tax	bil. $	163.1	168.0	172.8	180.3	188.0	177.3
Personal Saving	bil. $	101.3	88.9	92.9	97.3	100.6	94.9
Average Weekly Earnings	$	297.4	310.7	316.0	320.2	325.9	318.2
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Personal Income	bil. $	2400.2	2534.1	2603.4	1694.4	2763.6	2648.8
Personal Dispos. Income	bil. $	2013.4	2128.2	2185.5	2270.7	2545.8	2228.2
Compensation of Employees	bil. $	1762.8	1841.1	1894.5	1958.4	1999.1	1923.3
Corp. Profits After Tax	bil. $	177.3	190.2	197.4	202.1	207.5	199.3
Personal Saving	bil. $	94.9	103.1	108.6	118.1	116.0	111.5
Average Weekly Earnings	$	318.2	330.4	335.1	341.2	347.8	338.6
Indicator	**Unit**	**1982**	**1983**				**1983**
			1	2	3	4	
Personal Income	bil. $	2648.8	2839.5	2949.2	3056.2	3161.8	3001.6
Personal Dispos. Income	bil. $	2228.2	2391.5	2484.4	2583.6	2674.6	2533.5
Compensation of Employees	bil. $	1923.2	2042.1	2121.5	2200.2	2278.4	2160.6
Corp. Profits After Tax	bil. $	199.3	215.4	217.5	221.9	228.3	220.8
Personal Saving	bil. $	111.5	114.0	114.9	119.6	121.2	117.4
Average Weekly Earnings	$	338.6	352.4	358.9	364.8	371.5	361.9

This Institute agrees with the view of William Cox, acting chief economist for the Commerce Department. He spoke of the slow growth in income as being attributable to a leveling of both the percentage employed and the hours worked. The July adjustment for inflation in Social Security and other benefit programs plus passage of a tax package before winter will aid consumption.

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI shares the view of the majority of forecasters that there will be no further tightening of monetary and credit policy by the Federal Reserve in the coming months. However, unlike some, KEDI does not expect to see any drastic loosening of monetary policy or lowering of interest rates. The assumption that the Fed's policy will remain tight for this year and next year is maintained: There will not be any more apparent relaxation before 1983. Forecast data here show moderate increases in the money supply, M1A, over the next years. Growth of this measure of the money supply calculated by KEDI is as follows: 1981, 3.6 percent; 1982, 4.0 percent; 1983, 4.7 percent; 1984, 4.9 percent, and 1985, 4.8 percent. That is in line with overall economic growth projected for these years.

Forecast data for commercial and industrial loans have been increased slightly for the 1982-83 period when compared to last month's forecast. A somewhat stronger demand for loans is expected in the automobile,

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted"
are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, MlA	bil. $	377.1	368.3	363.2	366.4	371.8	367.4
Time Deposits, Adjusted, M2	bil. $	1597.4	1697.0	1726.5	1749.8	1769.4	1735.7
Consumer Instal. Credit	bil. $	313.4	310.8	314.9	323.1	330.6	330.6
Commerc. & Industr. Loans at Banks	bil.$	324.9	330.4	335.1	339.7	344.8	344.8
Negotiable Cert. of Deposits	bil. $	129.2	132.4	136.9	141.5	146.3	146.3
Mortgages at S & L Assns.	bil. $	502.8	507.0	507.9	508.3	511.6	511.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, MlA	bil. $	367.4	382.0	387.6	393.4	401.2	391.1
Time Deposits, Adjusted, M2	bil. $	1735.7	1792.4	1809.7	1844.9	1881.3	1832.1
Consumer Instal. Credit	bil. $	330.6	338.2	343.1	350.7	358.0	358.0
Commerc. & Industr. Loans at Banks	bil. $	344.8	349.2	354.8	366.7	369.4	369.4
Negotiable Cert. of Deposits	bil. $	146.3	149.2	153.6	159.4	163.2	163.2
Mortgages at S & L Assns.	bil. $	511.6	514.9	522.2	525.6	531.9	531.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, MlA	bil. $	391.1	408.7	416.5	421.8	429.9	419.2
Time Deposits, Adjusted, M2	bil. $	1832.1	1908.1	1944.3	1991.5	2042.5	1971.6
Consumer Instal. Credit	bil. $	358.0	365.2	373.6	381.5	385.4	385.4
Commerc. & Industr. Loans at Banks	bil. $	369.4	373.5	386.7	389.5	394.2	394.2
Negotiable Cert. of Deposits	bil. $	163.2	166.7	169.8	173.1	175.2	175.2
Mortgages at S & L Assns.	bil. $	531.9	538.4	543.2	553.8	555.6	555.6

chemicals, machinery, and construction industries than was previously anticipated.

Consumer loan totals have been expanded a bit in the data here for 1982 and 1983 mainly because of the revised forecasts for auto loans in those years.

1.80 INTEREST RATES, YIELDS, SECURITIES PRICES
(Table 1.80 on page 25)

For the current year, KEDI agrees with the majority of economists in the view that interest rates will be declining. The forecast of interest rates here shows a gradual decline during the rest of this year and throughout 1982. An upward trend will begin again in 1983 and 1984.

KEDI is not as optimistic, for example, as Morgan Guaranty spokesperson that spoke of seeing the federal funds rate dropping to the 15-16 percent range by July. Also, KEDI does not forecast that rate as possibly moving down to 14 percent by September as did an economist for a leading San Francisco bank. On the other hand, this Institute is not as pessimistic as a Chase Manhattan spokesman that cautioned people about the record high interest rates still to come this year. Also, KEDI does not agree with Henry Kaufman of Salomon Brothers that interest rates may fall for a short time but soar to new peaks in the next 12 months. (The Wall Street Journal, June 26, 1981.)

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.51	14.37	15.21	15.04	14.52	14.79
Prime Rate	%	15.10	19.21	18.96	19.04	18.31	18.88
Mortgage Rate, New Homes	%	12.96	14.46	14.68	14.41	14.09	14.41
Aaa Bonds Rate	%	11.96	13.52	13.56	13.49	13.31	13.47
Long Term Govt. Bonds Yield	%	11.39	12.74	12.98	12.79	12.64	12.79
Standard & Poor's 500 Average	1941-43 =10	118.71	133.79	133.86	132.27	133.46	133.35

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	14.79	14.07	13.69	12.98	12.56	13.33
Prime Rate	%	18.88	17.81	17.40	16.89	16.68	17.20
Mortgage Rate, New Homes	%	14.41	13.72	13.81	13.69	13.60	13.71
Aaa Bonds Rate	%	13.47	12.80	12.02	11.56	11.28	11.92
Long Term Govt. Bonds Yield	%	12.79	12.58	12.72	12.84	13.14	12.82
Standard & Poor's 500 Average	1941-43 =10	133.35	132.85	133.49	134.96	136.85	133.54

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.33	12.61	12.72	12.64	12.87	12.71
Prime Rate	%	17.21	16.30	16.01	16.11	16.40	16.21
Mortgage Rate, New Homes	%	13.71	13.36	13.51	13.59	13.48	13.40
Aaa Bonds Rate	%	11.92	11.12	11.54	11.66	11.90	11.56
Long Term Govt. Bonds Yield	%	12.82	12.98	12.56	11.02	11.84	12.10
Standard & Poor's 500 Average	1941-43 =10	133.54	137.02	135.43	134.58	137.82	136.21

* Historical Data

As can be seen in Table 1.80 on page 25, KEDI expects that interest rates will gradually move downward. The prime rate expected here for December, 1981, is in the 17-18 percent range, and the mortgage rate anticipated is 15.5 percent. For the end of 1982, a prime rate of 15-16 percent is expected and the mortgage rate will be slightly lower in the 14.5 percent range.

The forecast for stock market activity remains essentially unchanged, as measured by Standard & Poor's 500 average.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Income in Current dollars for the first quarter of 1981 has been selected for comparison. Actual figures are in the Survey of Current Business, p. 16 (U.S. Department of Commerce, Washington, D.S., Vol. 61, No. 4, April 1981). Forecast data are from the Business Forecasts 1981, Federal Reserve Bank of Richmond, Richmond, Virginia, 1981. The following table shows the predictions of forecasters and the deviations of forecast data. As shown, Chase Econometrics, Morgan Guaranty, and KEDI were closest to the mark.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

PERSONAL INCOME

(First quarter 1981, bill. current $, S.A.A.R.)

Actual: 2,317.7

Forecaster:	Page of Business Forecasts 1981:	Forecast:	% of Accuracy:
Georgia State University	23	2,245.8	-3.1
The First National Bank of Chicago	24	2,264.0	-2.7
UCLA	27	2,256.7	-2.4
Standard & Poor's Corporation	31	2,249.0	-3.0
Data Resources, Inc.	32	2,260.8	-2.5
KEDI	33	2,298.4	-.8
Fidelity Bank	34	2,278.7	-1.7
Morgan Guaranty	35	2,305.8	-.5
Chase Econometrics	36	2,308.5	-.4